Politics
Chris Christie: The GOP's Austerity Rock Star
p68

Companies
GM'S NEW TOUGH GUY
p64

Etc.
Grab a Pillow! The Rise of the Workplace Nap
p84

Plus
Housing: The Recovery Killer? p10
Six Degrees of Marc Andreessen p37
A Hiring Binge in D.C. p23
Hard Times for Private Equity p41
Focus On: Enterprise p49

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The Gold Digger



Thomas Kaplan and the mad search for the world's most primitive source of wealth p58



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Bloomberg Businessweek
Contents



I am Spartacus!
When a mere marathon is not enough p81

Opening Remarks 4

Any move to raise interests rates should be resisted. The stagnating U.S. economy's big worry is deflation. Let's keep America in the '30s—not Germany in the '20s—in mind

Global Economics 7

The price of tea in China
Mainland workers are suddenly finding life a lot more expensive than the official statistics indicate

- Calls for drug legalization to quell Mexico's gang wars p9
- U.S. housing turns toxic p10
- Return of the Super Yen p10
- Europe's widespread construction slowdown p11
- Pro-baby policies in Japan p12
- Tom Keene's EconoChat p12

Companies & Industries 15

Hospital power
California's Sutter Health has enough market clout to jack up prices and stare down insurers

- Ari Bousbib's fond farewell from United Technologies p16
- Why PotashCorp is now attracting suitors p17
- Mizuno takes aim at the U.S. market for baseball gear p19
- The new cancer therapies p20
- In Brief p21

Politics & Policy 23

Rewiring Wall Street
Now that financial reform is law, regulators are up to their necks in meetings and impossible deadlines

- Shrinking farm subsidies p24
- The diverging economies of the U.S. and Europe p25
- Athletes vying for office p26
- Why New Zealand's farmers are swapping sheep for trees p27

Technology 31

Retailers' new best friend
How smartphone services that let shoppers check in when they enter a store can boost foot traffic

- Microsoft's Halo juggernaut p32
- Salesforce.com's social side p34
- A service focus at Lexmark p36
- Freescale hints at an IPO p36
- Six degrees of Andreessen p37
- Jimmy Lai's animated news p38

Markets & Finance 41

Private equity dog days
The $2.5 trillion industry is straining to raise new money and repair its battered image

- A hurdle for Deutsche Bank's heir apparent p42
- How the bond boom is rocking the mutual-fund industry p44
- Islamic finance star p45
- Optimism in commodities p45
- Bid & Ask: The week's deals p46

Enterprise 49

The idea hunt
Multinationals are drawing in entrepreneurs with contests that offer prizes and partnerships

- Varsavsky on arrogance p50
- A health-tax-credit hitch p50
- The best (and worst) countries for launching a business p51
- In the U.S., it's getting harder to hire foreigners p54
- Misrepresenting small biz p56



Christie's moment The New Jersey governor's rising national profile p68

Features 56

Gold Digger
Billionaire Thomas Kaplan is betting big on the metal: "We haven't yet begun the real bull market" p58

Akerson Grabs the Wheel at GM
On the eve of General Motors' IPO, another telecom tough guy slips into the CEO role. Right guy? p64

The Next Republican Action Hero
New Jersey Governor Chris Christie is a rising GOP star and champion of the New Austerity p68

Future of Tech: The Wild Bunch
Video game Red Dead Redemption is a huge hit, but it may not save the company that owns it p74

Etc. 81

Extreme Workouts for White-Collar Warriors
Adventure challenges like Spartan Race are testing the mettle of young financial professionals

- **Behavior** A growing number of companies are encouraging their employees to lay down on the job and take a nap p84
- **Wealth** Kris Jenner of T. Rowe Price on how he's picking biotech winners p86
- **Next Life** A banker doubles down on fashion with a members-only retail website p87
- **Travel** With the Venice Biennale of Architecture about to begin, here are some insider tips on making the most of a trip to the City of Bridges p88
- **The Stack** *Selling the Fountain of Youth* traces the ascendance of botox and HGH p90
- **Hard Choices** NBCU's Lauren Zalaznick on taking charge of Oxygen and iVillage p92

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Index



A B C

ABC 46
Activision 74
Aetna (AET) 15
Agarwal, Anil 46
Akerson, Daniel F. 64
Alexion Pharmaceuticals (ALXN) 86
Allegheny Technologies (ATI) 45
Allison Transmission 64
Amazon.com (AMZN) 31, 36
American Eagle Outfitters (AEO) 31
American Funds 44
Amgen (AMGN) 86
Amherst Securities 10
Andreessen, Marc 37
AOL 37
Apex Silver Mines 58
Apollo Global Mgmt. 41
Apple (AAPL) 21, 36, 74
Aston Martin 45
AstraZeneca (AZN) 20
AT&T (T) 31, 64
Attwood, James A. Jr. 64
Avaya 16
AxleTech International 64
Bain Capital 87
Bair, Sheila 23
Bank of America (BAC) 25
Barclays Capital (BCS) 25
Barcode Hero 31
Barnes & Noble (BKS) 21
Bayer 20
BB&T (BBT) 36
Ben & Jerry's 84
Berkshire Hathaway (BRK) 19
Bernanke, Ben 4, 25
Best Buy (BBY) 31
BHP Billiton (BHP) 17
Biogen (BIIB) 86
Blackstone (BX) 36, 41
Blue Shield of California 15
BMW 64
Boehner, John 28
Bonderman, David 64
Bonhams 46
Booyah 31
Bradley, Shawn 26
Bravo 92
Breyer, Jim 37
Bristol-Myers Squibb (BMY) 68
British Airways 84
Bunchball 31
Buono, Barbara 68
Burkle, Ron 21
Cairn India 46
Calderón, Felipe 9
Cameron, David 4
Campbell, Bill 37
Campbell Soup (CPB) 31
Capital Group 44
Carlyle Group 41, 64
Caxton Associates 58
Celgene (CELG) 86
Ceridian 64
Chevron (CVX) 15
Chicago Bulls 92
China Railway 21
Christie, Chris 68
Cisco Systems (CSCO) 49, 84
Citigroup (C) 45
Clark, Jim 37
Coca-Cola Enterprises (CCE) 36
Collins Stewart 81
Continental (CAL) 84
Corzine, Jon 68
Crowd Fusion 37
Cummins (CMI) 36
CVS (CVS) 36

D E F

Dell (DELL) 34, 49
Deloitte Touche Tohmatsu 9
Demand Media 36
Dendreon (DNDN) 20
Deutsche Bank (DB) 42
Didier, Clint 26
Discovery Channel 81
Dodd, Chris 23
Doerr, John 37
Dow Chemical (DOW) 45
Dudley, Chris 26
Dupont (DD) 21
eBay (EBAY) 37
Edwards Lifesciences (EW) 86
EFuel 49
Electronic Arts (ERTS) 74
Elevation 81
Energy Future Holdings 41
ESPN (DIS) 81
Exelixis (EXEL) 20
Faber, Marc 58
Facebook 31, 34, 37
Ferrovial 11
Fidelity Investments 44
Fidelity National Information Services (FIS) 41
Fimian, Keith 26
First Data 41
First Niagra (FNG) 46
Ford (F) 36, 64
Forstmann, Theodore J. 64
Fortress Investment (FIG) 41
Fort Washington Investment Advisors 45
Foster + Partners 88
Foster's Group 21
Foursquare 31, 37
Fox, Vicente 9
Franklin Resources (BEN) 44
Freddie Mac (FRE) 10
Freescale Semiconductor 36
Fresenius Medical Care 42
Fry, Patrick 15

G H I

Gabriel Resources 58
Gap (GPS) 31
Geithner, Timothy 23
General Electric (GE) 15, 16, 49, 92
General Motors 64
Gilead Sciences (GILD) 86
Gilt Groupe 87
Giordano 38
GlaxoSmithKline (GSK) 20
GLC 25
Gluskin Sheff + Associates 45
Goldman Sachs (GS) 12, 68
Golfsmith International 21
Google (GOOG) 31, 84
Gowalla 31
Grupo Elektra 9
Harrah's 41
Hart, Graeme 46
Hatzius, John 12
Health Net 15
HeartWare Intl. (HTWR) 86
Helvea 42
Hertz Rent-a-Car 64
Hewitt Associates (HEW) 7
Hewlett-Packard (HPQ) 37
Hoenig, Thomas 4
Honda (HMC) 64
Honeywell Int. (HON) 68
Horowitz, Ben 37
HSBC Holdings (HBC) 45
Hulu 36
Human Genome Sciences (HGSI) 86
Hurd, Mark 37
Icahn Enterprises 74
IHS Global Insight 10
IMS Health 16
Incyte (INCY) 86
Int. Minerals & Chemical 17
Intersil (ISIL) 36
Investment Dar 45
iRobot 10
Irving Levin Associates 15
iVillage 92

J K L

Jain, Anshu 42
James, Hamilton "Tony" E. 41
Janco Partners 74
Janney Montgomery Scott 10
Janus Capital Group (JNS) 44
Jawa 84
JDS Uniphase 16
JetBlue (JBLU) 38
Johnson & Johnson (JNJ) 68, 86
JPMorgan Chase (JPM) 9, 25, 36, 81
Kaiser Permanente 15
Kennard, William E. 64
Kerlikowske, R. Gil 9
KeyCorp (KEY) 45
KKR (KFN) 41
Kno 37
Lafarge 11
Lai, Jimmy 38
Landesbank Berlin Investment 42
Lane, Nathan 46
Lexmark International 36
Liddell, Chris 64
Lindholst, Christopher 84
LinkedIn 37
Lloyds Banking Group 64
Lutz, Robert A. 64

M N

Macy's (M) 31
Magee Group 64
McCaw Cellular 64
Mednick, Dr. Sara 84
Medtronic (MDT) 86
Mercedes 64
Merck (MRK) 20, 68, 86
Merrill Lynch (MER) 42
Merrimack Pharmaceuticals 20
Mesirow Financial 25
MetroNaps 84
MFS Investment Mgmt. 44
Microsoft (MSFT) 32, 64
Mizuno 12, 19
Monsanto (MON) 21
Montblanc 46
Moody's (MCO) 10, 45
Morgan Stanley (MS) 4, 68
Motorola (MOT) 36
Natixis Global Asset Mgmt. 11
NBC Universal 92
Nielsen 16
Netflix (NFLX) 49
Neuwirth, Bebe 46
NewAlliance (NAL) 46
New England Patriots 31
New York Giants 88
Nextel 64
Next Media Animation 38
Nike (NKE) 19, 21, 84
Nintendo 49
NovaGold Resources (NG) 58
Novartis (NVS) 20
Novell (NOVL) 49

O P

Obama, Barack 23
Oil & Natural Gas 46
Omidyar, Pierre 37
O-Net 12
Oxygen Network 92
Pactiv (PTV) 46
Paulson, John 58
PepsiCo (PEP) 49
Peterson, Peter G. 41
Pfizer (PFE) 20, 86
Pimco 4, 44
Pinault, François 88
PotashCorp 17
Prequin 41
Procter & Gamble (PG) 49, 84

Q R

Quintiles Transnational 20
Rank Group (RNK) 46
Rawlings 19
RealtyTrac 10
Reliance Capital Asset Management 45
Riemersma, Jay 26
Roche (RHHBY) 20, 68, 86
Rockstar Games 74
Rockwool International 11
Runyan, Jon 26

S

Saad Group 45
Salesforce.com (CRM) 34
Salinas, Ricardo 9
Sanofi-Aventis (SNY) 20
SAP 42
Saturna Capital 45
Schapiro, Mary 23
Schwarzman, Stephen A. 41
Scvngr 31
Sephora 31
Shopkick 31
Silver Opportunity Partners 58
Sinochem Group 17
Skype 36, 37
Somers, Suzanne 90
Sony (SNE) 31, 36
Soros, George 58
Spalding 19
Sports Authority 31
SportsOneSource 19
Sprint (S) 64
Starbucks (SBUX) 31, 49
Stickybits 31
Stiglitz, Joseph 4
Stone & Youngberg 81
Stream Global Services 64
Susquehanna Financial 44
Sutter Health 15
Sweeney, Stephen 68
Sylvite Group 17

T

Take-Two Interactive (TTWO) 74
Tarullo, Daniel 23
The Electrum Group 58
Thiel, Peter 37
Thomas H. Lee Partners 41
Time Warner (TWX) 37
Toyota (TM) 64
TPG 41, 64
Triago 41
Tribal DDB Worldwide 31
Trichet, Jean-Claude 25
T. Rowe Price (TROW) 44
TV Azteca 9
Twitter 34, 37

U

United Technologies (UTX) 16
Urbanbloke 87
USA Network 81

V

Vale (VALE) 17
Vanguard Group 44
Vedanta 46
Verizon (VZ) 64, 68
Vilsack, Tom 24
Vinci 11
Volkswagen 46

W

Walt Disney (DIS) 15
Wedbush Morgan Securities 74
Wells Fargo (WFC) 15
Whitacre, Edward E. Jr. 64
Wireless Automation Solutions 49
Woods, Tiger 21

X Y Z

Xerox (XRX) 36
Yelp 84
YouTube (GOOG) 33, 68
Zynga 37

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Corrections & Clarifications

❶ The first sentence of "A Crisis Commission's Unusual Book Deal" (Politics & Policy, Aug. 16) incorrectly said that the Financial Crisis Inquiry Commission had signed a book deal with Little, Brown. The story later correctly stated that no contract has yet been executed.

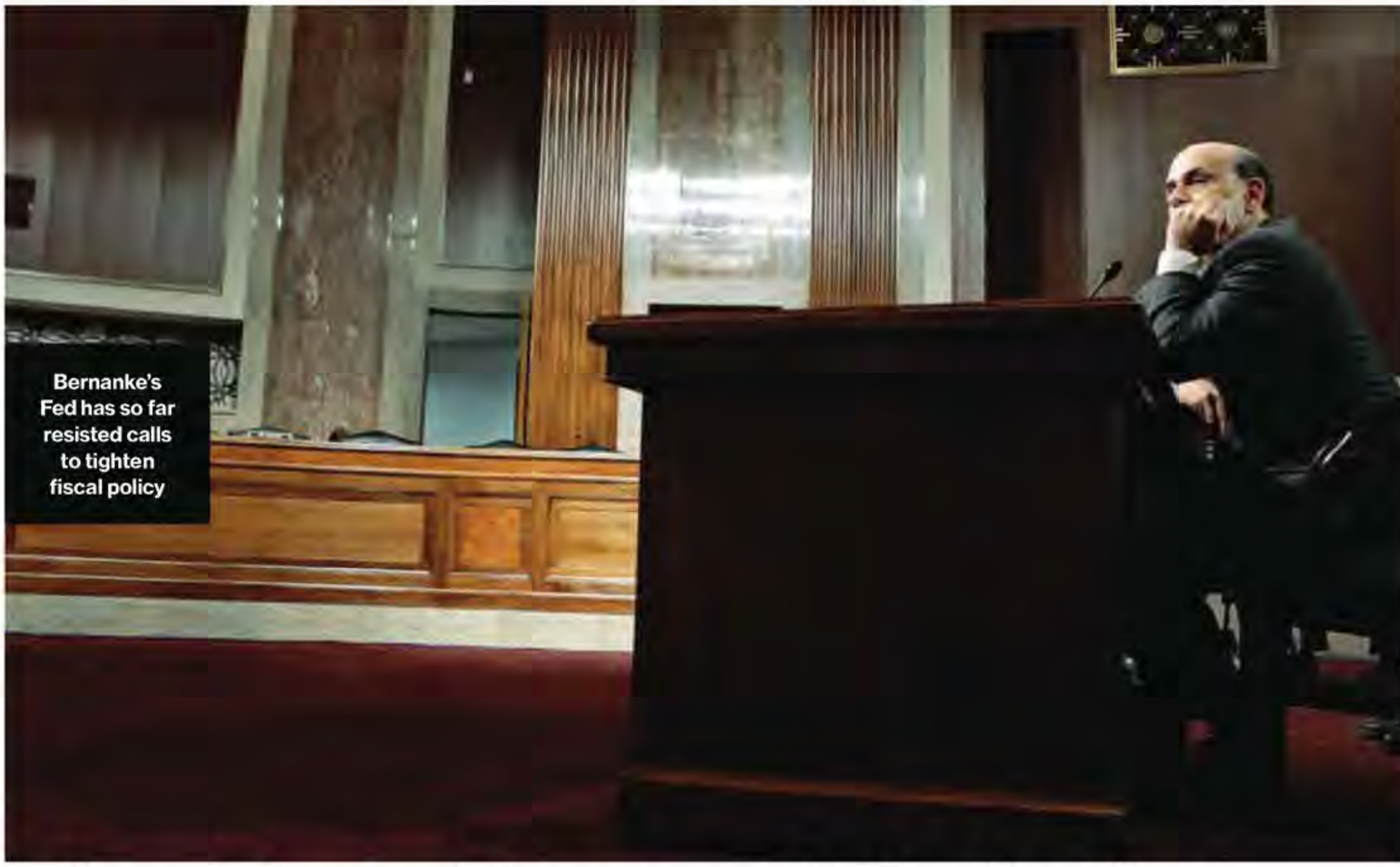
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Opening Remarks



Bernanke's Fed has so far resisted calls to tighten fiscal policy

MOLLY RILEY/REUTERS

The Zero Percent Solution

There are smart arguments for raising rates. They just aren't smart right now

By Mark Gilbert

The saying of radical things is easy sport among central bank watchers. If they're wrong, the wave of consensus erases most evidence they ever said anything at all. If, however, a wild, contrary call proves right, the rewards can be spectacular.

Which is not to say that the first crop of contrarians calling on the world's central banks, particularly the Federal Reserve, to initiate higher borrowing costs are fueled by anything other than conviction. Raghuram Rajan, a former chief economist at the International Monetary Fund who is a professor at the University of Chicago's Booth School of Business, saw the credit crisis brewing in 2005; he now says Fed Chairman Ben Bernanke should gradually increase his benchmark interest rate by as much as two percentage points. William White, who used to head the monetary and economics department at the Bank for International Settlements, is warning that "low rates are not a free lunch, but people are acting as though they are."

Keeping rates too low for too long damages the recovery by "raising asset prices and incentivizing investment in riskier assets," according to Rajan, which threatens to create yet more bubbles that central banks are unwilling to tackle. Moreover, savers aren't simply punished by near-zero returns; their nest eggs shrink further when the inflation rate outpaces deposit rates. And if improving consumer confidence is a prerequisite for a rebound in growth, then near-zero interest rates send the wrong message: They destroy nascent hope in the economic outlook and make the future that much more uncertain for consumers and companies.

The crisis is far from over. Risk has drifted from the banks to the governments that backstopped them

Such arguments are gaining traction with a vocal minority of policymakers. In the U.K., Bank of England Monetary Policy Committee Member Andrew Sentance, who spent much of his career as the chief economist for British Airways, has been alone in voting to raise rates at three consecutive meetings. And at the U.S. central bank, Kansas City Fed President Thomas Hoenig has dissented at all five policy meetings this year in a failed attempt to persuade his colleagues to drop their pledge to keep rates low for an "extended period." He argues that banks are now being paid for inaction, "earning a guaranteed return on free money from the Fed by lending it back to

the government through securities purchases." Raising rates would encourage them to seek a return by taking on risk—and that would be stimulative.

Or so the argument goes. The hyperinflation that trashed Germany's economy in 1923, rather than the Great Depression that afflicted the U.S. later that decade, has set the tone for central banking in the modern age. The guardians of monetary stability are hardwired to favor higher rather than lower borrowing costs in anything other than emergency conditions. Provided the credit crisis is truly over, the natural response to the massive liquidity injections that have goosed the world economy is to crank up rates to keep inflation down.

The allure of contrary thinking aside, that would be a terrible mistake. The crisis is far from over. Risk has drifted from the banks to the governments that backstopped the financial industry. The problem is, there's no safety net underneath sovereigns. On Aug. 25 a Morgan Stanley research report warned investors that defaults on government bonds aren't out of the question. "Outright sovereign default in large advanced economies remains an extremely unlikely outcome," the report said. However, "Governments will impose a loss on some of their stakeholders."

The bond market is screaming a warning that deflation, defined as a sustained period of falling prices, is a much bigger threat than price increases. Ten-year government debt yields in the U.S. and Germany are in a race to see which can be first to drop through 2 percent; two-year Treasury yields are at a record low, below 0.5 percent, while Germany's 30-year borrowing costs are also the lowest ever seen. Wherever you look in the fixed-income market, inflation has been vanquished.

U.S. economic performance continues to disappoint. New-home sales collapsed by 12 percent in July to an annual pace of 276,000, the lowest level since the Commerce Dept. began compiling figures in 1964, and the median price of $204,000 is the cheapest since late 2003. Orders for durable goods rose just 0.3 percent, compared with the 3 percent gain predicted by economists. Against that backdrop, it's hard to see how anyone can get worried that higher rates are needed anytime soon to restrain inflation.

Those who oppose watering down the various stimulus packages that are keeping the economy alive see warning signs everywhere. Europe is looking anxiously to the East, concerned that China will be too successful at reining in growth. Olli Rehn, the European Union's economic chief, says that slowing Asian economies would have a "serious negative impact" on his region. The U.S., meantime, frets that Europe will slide back into recession, making the dreaded double-dip a reality. "Cutting back willy-nilly on high-return investments just to make the picture of the deficit look better is really foolish," Nobel prize-winning economist Joseph Stiglitz told Dublin-based RTE Radio in an interview broadcast on Aug. 24. And almost every supporter of doing more, not less, to resuscitate animal spirits is looking to the recent history of Japan as the chief reason why austerity should not be the new black. "What we're doing is setting ourselves up for a longer-term Japanese-style malaise of weak growth for an extended period of time," Stiglitz says.

Even Axel Weber, typically a hawk among hawks at his Bundesbank roost in Frankfurt, says the European Central Bank should do nothing to slow the pace of liquidity keeping the economy afloat until at least the first quarter of next year. "The health of the financial system and the banking system" will dictate whether the recovery is sufficiently robust to withstand the withdrawal of central bank support, he said earlier this month.

It's the U.K. that is setting the pace on heading for the exit. Prime Minister David Cameron has embraced austerity and spending cuts in an effort to safeguard Britain's AAA credit rating and avoid the fate of Greece, whose surging deficit has made it a pariah in international capital markets. If Cameron can persuade Parliament to back his efforts to slash the U.K. debt burden, and succeeds in shrinking government payrolls without sabotaging the recovery, U.S. lawmakers keen to scale back government intervention might take heart.

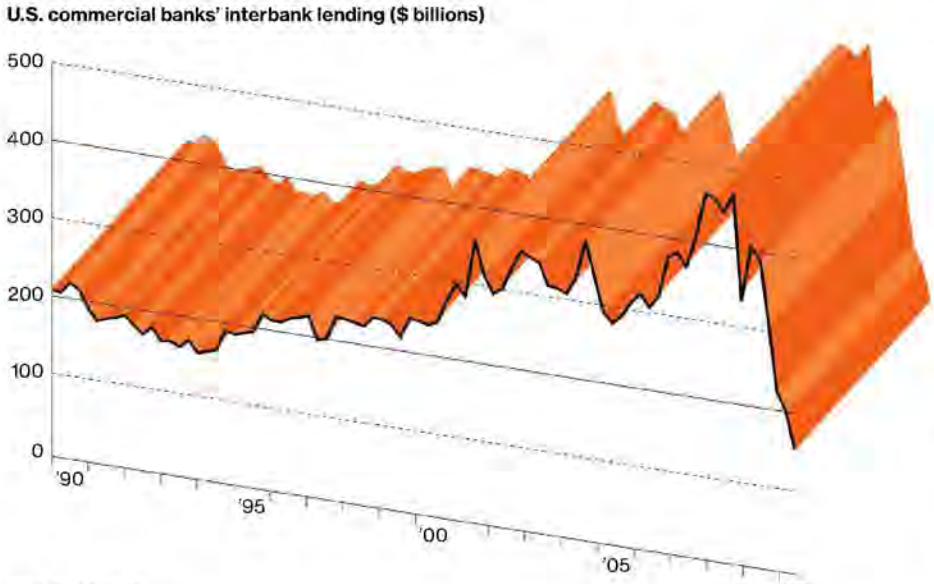
Paul McCulley at Pimco, which runs the world's biggest bond fund, reckons it might take a stock-market slump to dissuade U.S. politicians from risking recession by embracing austerity. He's not forecasting collapse, though he thinks the risk is rising.

"Surreally, Congress is presently wrapped around the austerity axle," McCulley says. "I happen to think this is bad policy, very bad policy. That could change if the risk of a return to recession continues to rise, spooking the equity market. A few thousand points of Dow might be what is needed to get the attention of austerian legislators wanting to get reelected." Ⓑ

—*With Scott Lanman, Matthew Brown, Simon Kennedy, and Vivien Lou Chen*

Interbank Free Fall

Banks' loans to each other, which are riskier than investments in Treasuries, fell sharply in the 2008 financial crisis and still haven't recovered



DATA: BLOOMBERG



More phones that work in
more countries, like England.

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Contents ▶ Mexico debates legalizing drugs 09 ▶ Housing's deadweight 10 ▶ Behind the yen's scary rise 10 ▶ Europe's empty construction sites 11 ▶ Japanese bureaucrats promote young love 12 ▶ Tom Keene talks to Goldman's Jan Hatzius about the U.S. 12 ● Edited by Christopher Power



A Beijing meat market: Some Chinese report food prices are up 20 percent

IAN TEH/PANOS

What's a Pork Rib Really Cost in China?

▶ Workers find life a lot pricier than official statistics suggest

▶ "Prices have gone up too far. My entire monthly pension of $147 is spent on food"

Lydia Wang, a 28-year-old marketing manager in Shanghai, gripes that the shoes and clothing she normally buys are at least 50 percent pricier than in 2009. Wu Sengyun, a 54-year-old retiree living in the coastal city of Ningbo, Zhejiang, says prices of fruit and fish are both up more than 20 percent. Willy Lin has cut back on serving free drumsticks in the canteen of his Jiangxi clothing factory as meat and vegetable prices climb. "The workers suffer," he says. "Everybody is crying."

Officially, China's consumer price inflation topped out at 3.3 percent in July from the year before–a 21-month high. The government says the spike is a one-off caused by crop damage in recent flooding. Other costs, they say, such as cars, mobile-phone bills, and clothing, are actually falling, and price increases should slow as the economy cools. At an Aug. 12 press conference, Pan Jiancheng, a deputy director in the statistics bureau, announced that the inflationary threat was "overhyped."

Many consumers, investors, analysts, and academics disagree. "There has been a jump in prices that isn't reflected in the numbers," says Chinese Academy of Social Sciences economist Yu Yongding, who formerly served as an adviser to China's central bank. Michael Pettis, a finance professor at Peking University, wonders how a country that

China may have an inflation problem it either hasn't figured out how to measure or has chosen to ignore

grew 10.3 percent last quarter and is seeing upward pressure on wages could register inflation of only a few percentage points. Another sign of rising prices: Multinationals in China expect to hike wages an average of 8.4 percent this year, according to human resources consultant Hewitt Associates. Ordinary Chinese, meanwhile don't see the steep jumps in their housing, education, and medical expenses reflected in the official stats. "Inflation could well be 6 percent now for most people in China," says Pettis.

If the doubters are right, then the government has a serious inflation problem that it either hasn't figured out how to measure or has chosen to ignore. Other vital Chinese statistics–such as retail sales and unemployment–have also been murky. In the case of inflation, mismeasuring could prevent the

Global Economics



6%

Possible rate of inflation in China. Government estimate is 3.3.

kind of swift action needed to tame rising prices now—and force the government to apply much harsher measures later, such as a sharp increase in interest rates or a rapid appreciation of the currency to curb growth. The political risks are high, too: Social unrest in China often increases when ordinary workers can't keep up with the cost of living.

Unlike most countries, China refuses to release in detail how much weighting it gives different product categories when calculating inflation, a situation that World Bank senior economist Louis Kuijs calls an "oddity." An official with the statistics bureau says there has been no major change in the basket that makes up the price index since 2005. Plans call for adjusting the weighting next year to reflect housing costs more and food prices less, says the official, who declined to give her name because of agency rules.

Chinese consumers see firsthand how dramatically household expenses have changed in the last decade. Medical costs are the No.1 concern for 84 percent of China's rural residents, according to a recent survey by the Economist Intelligence Unit. Officially, medical prices are only up 2.8 percent so far this year. That number does not include the cost of gifts to hospital doctors and administrators to ensure adequate care. Also at issue: rising apartment and rental costs that eat up more of Chinese budgets. For 26-year-old Beijing resident Wang Yulu, the monthly rent of her 35-square-meter one-bedroom apartment has just increased more than 20 percent, to $338. "It's too expensive," says Wang, who works in the Beijing office of a Hong Kong advertising company. "I'm thinking of moving."

Getting a handle on rising prices is a particular challenge in China. Hundreds of millions of rural Chinese keep moving to urban coastal areas, pushing up rents and food prices. The prices charged by millions of restaurants, coffee shops, and fitness centers go largely unrecorded as entrepreneurs evade taxes. A standard foot massage, popular in cities, has risen from around $10 in 2008 to about twice that today, says Zoe Wang, a 29-year-old strategy consultant from Shanghai. "Unfortunately, my salary didn't double," she says. Official figures record only a 0.4 percent rise in recreation and education costs this year. (Another oddity: China does not separate these two categories in its figures).

Residents in far western China face higher prices, in part because of the long distances products must travel to reach them. A fast-growing population of pensioners feels price hikes much more acutely than others. Says 54-year-old Beijing retiree Wei Mingxiang, as she shops in Beijing's Rundeli vegetable market: "Prices have gone up too far. My entire monthly pension of $147 is spent on food." One staple, cowpeas, recently doubled in price in two weeks to 40¢ a pound.

By releasing wheat, rice, and corn from its reserves, the government has avoided the 100 percent price surge that hit global grain markets in 2007 and 2008. Beijing continues to cap prices on everything from phone bills to water, electricity, and fuel, and when it wants to cool growth it orders banks to stop lending. "The government has tended to use less mainstream instruments that economists don't like so much," says the World Bank's Kuijs. "And they tend to use interest rates less." One-year deposit rates at 2.25 percent have not been changed since November 2008, which means Chinese savers are actually losing money now that inflation has passed 3 percent. Officials fear higher rates could draw speculators into China.

Some analysts think Beijing is doing a decent job of calculating prices. Arthur Kroeber, the Beijing-based managing director of economic consultancy Dragonomics, estimates that actual inflation may exceed the official figure by not much more than one percentage point. Kroeber does say that a tightening labor market and rising wages will push China into higher inflation in the coming years.

Others wonder whether the historic aversion of China's rulers to the political risks of inflation creates pressures to keep official figures low. Similar pressures help explain how official unemployment targets of just over 4 percent were met in 2008 and 2009, when China's factories laid off tens of millions of workers, say economists. "The government has made it quite clear" what its inflation target is for 2010, blogged Tsinghua University management professor Patrick Chovanec on Aug. 12. "A whole parade of official sources have issued statements over the past few weeks predicting—with the unruffled, enigmatic certainty one normally associates with a blackjack dealer dealing a fixed deck—that inflation will come in right at 3 percent this year."

—Dexter Roberts, with Miao Han, Li Yanping, Penny Peng, Vincent Ni, and Helen Sun

The bottom line *Official inflation numbers in China are failing to reflect sharp jumps in housing, medical care, and other costs.*

Quoted

"As the floodwaters recede in Pakistan, recovery will start. But the economy was already weak, growing at less than 2 percent. This is going to set it back at least 1 percent, and they're going to depend on outsiders for economic assistance and maybe food assistance for the next year or so."



—Stephen Cohen, South Asia specialist at the Brookings Institution



The Mexican military displays captured drugs, weapons, and traffickers

EROS HOAGLAND/REDUX

Narcotics

In Mexico, a Call to Legalize Drugs

- Violence and police costs sap the economy; marijuana output jumps
- "If more U.S. states legalize, Mexico will take that step"

A record number of homicides is forcing Mexican President Felipe Calderón to discuss a new strategy in his country's war on drugs: legalization. Calderón said for the first time earlier in August that he was willing to rethink measures to fight trafficking after the death toll in the war he started against the cartels in December 2006 reached 28,000. In the latest atrocity, 72 bodies were found on Aug. 25 at a remote ranch near the U.S. border.

Calderón's remarks have prompted a sharp debate inside policymaking circles in both Mexico and the U.S. Former Mexico President Vicente Fox and other Mexican politicians say that legalization would cut funding to gangs and boost government revenue, while Director of the White House Office of National Drug Control Policy R. Gil Kerlikowske argues that legalization wouldn't solve anything.

The chances of legalization right now are slim. What's important is that a once-unthinkable topic is being discussed. "It's a major shift in the public discourse," said David Shirk, a professor of Mexican politics at the University of San Diego. "The government recognizes the current strategy is unpopular and there may be other options."

Calderón's willingness to consider legalization, even while saying he disagrees with the approach, shows the deep fatigue Mexicans are feeling over the struggle to eradicate the gangs. The increase in the pace of killings has drawn comparisons with Colombia in the early 1990s, when cocaine kingpin Pablo Escobar waged a war of terror on the state.

Local business is frustrated. On Aug. 18 business associations in the state of Nuevo León, which is home to the city of Monterrey, Mexico's commercial capital, took out an ad in the newspaper *Reforma* demanding that authorities act faster to stop the violence and urging that more troops be sent to the state. The business community was reacting to kidnapping and murder of Edelmiro Cavazos, a mayor of a town near Monterrey. Violence is the biggest threat to the Mexican economy, say 57 percent of Mexican executives surveyed in July by Deloitte Touche Tohmatsu. Earlier this year billionaire Ricardo Salinas Pliego, who controls broadcaster TV Azteca and retailer Grupo Elektra, urged the legalization of drugs in the U.S. and Mexico.

The government estimates that narcotics trafficking saps one full percentage point from gross domestic product annually. Fox wrote on Aug. 8 on his website that "radical prohibition strategies have never worked" and that legalizing the production and sale of drugs would curb violence, thereby bringing in more tourists and attracting investment. In August, Jesus Ortega, head of the Party of the Democratic Revolution, the No. 2 opposition party, and Fox's former Foreign Minister, Jorge Castañeda, voiced support for legalization as well. Several proposals to legalize drugs have been submitted to Mexico's congress, although none is up for debate. Calderón, while willing to consider the merits of legalization, has said it would be "absurd" for Mexico to act alone.

What happens in the U.S. could affect the direction the debate takes in Mexico. Marijuana is the primary source of drug revenue for the cartels because of the ease of cultivation and high American demand, according to the U.S. Drug Enforcement Administration. The U.S. State Dept. estimates that Mexico's marijuana output rose 39 percent between 2006 and 2008.

Fourteen U.S. states have approved laws allowing pot for medical use. In November, California, the nation's largest state by population, will vote on a referendum that would make it legal to possess an ounce or less of marijuana and allow local governments to regulate and tax sales. "If more U.S. states legalize, Mexico will take that step," says Gabriel Casillas, chief economist at JPMorgan Chase in Mexico City.

Kerlikowske, who oversees U.S. drug control policy, says that even if drugs were legalized, Mexico's gangs would still wreak havoc through such activities as kidnapping, extortion, and theft. "The people involved in trafficking are engaged in horrific acts of violence," he says. "They're not going to suddenly turn around and apply [for jobs] at IBM or Microsoft because they lost one part of their criminal enterprise."

Mexico, which spends about $8.2 billion annually on law enforcement, would save between 5 percent and

Global Economics

Mizuno makes a play for the U.S. market page 19 ▶



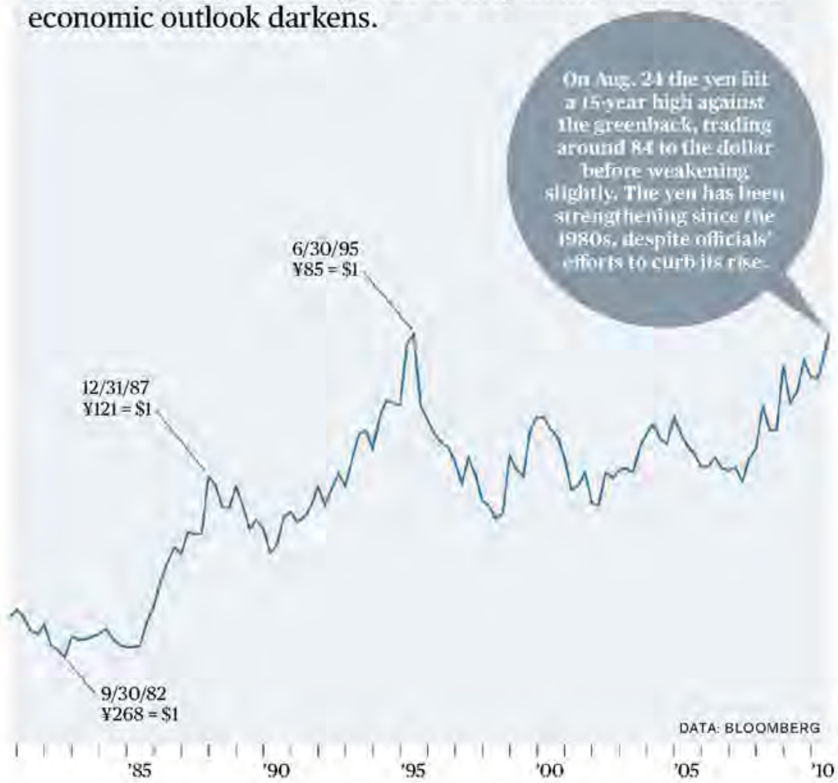
15 percent of GDP if narcotics were legal in all countries, says Luis Rayo, a finance professor at the University of Utah who studies the drug trade. Those savings fall to as low as 1 percent if drugs were legalized only in Mexico, he says. "The ultimate solution is for all countries to simultaneously legalize and regulate the drug trade. Mexico cannot succeed with unilateral measures." —*Jens Erik Gould*

***The bottom line** Mexico is publicly debating the idea of legalizing drug use to weaken the cartels. It would be an effective step only if the U.S. did the same.*

Currencies

Return of the Super Yen

Why the spike in the yen, given Japan's weak economy? Japanese companies remain global players, and they swap earnings from abroad back into yen. The Japanese are also normally big buyers of foreign securities. Now, says Standard Chartered, they're taking their money home as the world's economic outlook darkens.



U.S. Economy

How Housing Could Derail the Economy

- ▶ Rising foreclosures and falling sales discourage potential buyers
- ▶ "There is an epidemic of thrift. Households... are supercautious"

Housing led the U.S. out of seven of the last eight recessions. This time it may kill the recovery.

On Aug. 24 the Chicago-based National Association of Realtors reported that July sales of existing homes plummeted 27.2 percent from June, the biggest monthly drop since recordkeeping began in 1999. Sales of new homes dropped to the lowest level on record.

The July numbers are another sign that home sales have collapsed following the expiration in April of a federal tax credit for buyers. The manufacturing-led expansion could theoretically take up the slack–except manufacturing is on the wane, too, with jobless claims rising and factory orders actually dropping once aircraft orders are excluded. "If foreclosures continue to mount and depress home prices, that could send the economy back into a recession," says Celia Chen, an economist who tracks the industry for West Chester (Pa.)-based Moody's Analytics.

Housing's impact on the economy goes far beyond homebuilding. Spending on home construction and items such as furniture and white goods accounted for about 15 percent of gross domestic product in the second quarter, according to Moody's Analytics. When values soared in the mid-2000s, people used the boost in equity to pay for cars and vacations. In the recessions before the latest downturn, housing sales started to improve eight months before recovery, generating the jobs and the feel-good factor needed to get the economy going again. The opposite is happening now. Sales of new houses fell in five of the eight months before the economy started to grow again in 2009.

Today 14.6 million Americans are out of work, and homeowners are struggling to hold on to their properties. One in seven mortgages was delinquent or in foreclosure during the first quarter, the highest on record dating to 1979, according to the Washington-based Mortgage Bankers Assn. Foreclosures probably will top 1 million this year, says RealtyTrac, an Irvine (Calif.)-based data company.

Federal efforts to help have had little success. Of 1.31 million loan modifications started under the Obama Administration, 48 percent were canceled by the end of July, the Treasury Dept. said on Aug. 20. More than half of the households that had worked out modifications with their banks defaulted again within 12 months, the Office of the Comptroller of the Currency said on June 23.

Shadow inventory, or the number of homes repossessed or in default that eventually will be offered for sale, stood at 7.3 million in the first quarter, says Laurie Goodman, an analyst in New York at mortgage-bond broker Amherst Securities Group. As those properties hit the market, prices will come under even more pressure and buyers will wait for better deals.

"The only thing that's going to fix the housing markets right now is a work-through of what excess supply is on the markets and an improvement in unemployment," says Guy LeBas, chief fixed-income strategist at Janney Montgomery Scott in Philadelphia. "That is a very, very long-term process."

The few who are house hunting are taking their time. Marion and Jim Lasswell say they spend most weekends looking at homes for sale near Raleigh, N.C. His engineering job at iRobot is secure, the couple's credit is good, and they have saved enough for a 20 percent down payment, Marion Lasswell says. "We're still watching prices drop," Lasswell, a 38-year-old registered nurse, says. She adds that they won't buy "until there's an awesome deal." Home prices tumbled 33 percent from their July 2006 peak to the low in April 2009, according to the S&P/Case-Shiller 20-city index. They may drop an additional 20 percent by 2012 if the economy slips back into a recession, according to Moody's Chen.

Federal Reserve policymakers on Aug. 10 made their first attempt to shore up the recovery by pledging to keep their holdings of securities and prevent money from draining out of the banking system. The Fed has held the target for its benchmark lending rate near zero since December 2008 and purchased more than $1 trillion worth of debt to keep rates low and bolster housing. The average rate for a 30-year fixed mortgage dropped to 4.44 percent in the second week of August, the lowest recorded by McLean (Va.)-based Freddie Mac, the second-largest mortgage buyer.

You'd think home buyers would be snapping up those cheap mortgages. Instead, a July survey by the Conference Board found 1.9 percent of the respondents planned to buy a home in the next six months, near December's 27-year low of 1.7 percent. "There is an epidemic of thrift," says Nariman Behravesh, chief economist at IHS in Lexington, Mass. "Households and businesses are super-cautious right now."

Meanwhile the Lasswells keep looking. "I don't see things getting better," Marion Lasswell says. "I expect prices to be flat for a long time."

—By John Gittelsohn and Bob Willis

The bottom line *The housing market usually leads the U.S. out of recession. Now housing's woes may force the economy back into a downturn.*



A graphic of the Stadtschloss on a scaffold surrounding the project

Investment

A Lot Less Digging At Europe's Big Digs

- Hopes for big-ticket building projects fade as austerity pinches
- "We thought we had reached the trough, but now we're afraid"

The delayed revamp of a Berlin palace and a wobbly bridge project in Sicily signal that Europe's building industry will bear the brunt of state spending cuts. The Stoxx Europe 600 Construction & Materials Index, whose laggards include **Ferrovial** of Spain and France's **Lafarge**, has lost 17.3 percent this year. The wider Stoxx 600 index of European equities is down just 1.7 percent.

The threat of state budget cuts in Europe led cement maker Lafarge on July 30 to cut its best-case scenario for market growth, to 3 percent this year from 5 percent. "We're expecting construction stocks to remain very much under pressure," says Franck Nicolas, head of global asset allocation at Paris-based Natixis Asset Management, which oversees $400 billion of investments.

17.3%

Decline in a key index of European construction companies

Italy may delay building a $7.9 billion bridge linking Sicily to the mainland, and Spain on July 22 announced a freeze or delay on almost 200 projects worth more than $1.2 million each. France may reduce or eliminate its tax break on mortgages, which will hit new-housing construction. "We've felt the crisis and thought we had reached the trough, but now we're afraid of austerity," says Jean Rossi, the head of construction at **Vinci**, a top French engineering group. Britain has announced the biggest public spending cuts since World War II. **Rockwool International** of Denmark, the world's No. 2 insulation maker, sees Britain's building slump lasting two more years.

For Berliners, budgetary cuts mean a longer wait for work to start on the Stadtschloss palace, once the winter residence of the Hohenzollern kings of Prussia. "The delay—it may be shelved altogether—is really short-sighted," says Peter Traichel, chairman of Berlin's Chamber of Construction. "The *schloss* would become a Berlin landmark and would cost maybe no more than building 12 kilometers of Autobahn. I know what I'd prefer."

—Francois de Beaupuy

The bottom line *Infrastructure spending, a traditional way to boost economies, is falling under the ax in a suddenly frugal Europe.*

FROM LEFT: BARTON SILVERMAN/THE NEW YORK TIMES/REDUX; STEPHANIE PILICK/EPA/CORBIS

Demographics

Bureaucrats Play Matchmaker in Japan



▶ To redress its baby shortage, a prefecture starts a dating website

▶ "It's difficult to breathe life back into an economy without children"

Japan's Fukui prefecture has the nation's biggest share of dual-income households, the highest ratio of working women, and the lowest unemployment rate. What it doesn't have is enough babies.

So this month the provincial government will launch an online dating site for singles. Called the Fukui Marriage-Hunting Cafe, the website makes no attempt to disguise its purpose. And, as if wedded bliss were not its own reward, authorities will offer cash or gifts to couples who tie the knot. "Our goal is to first help people meet each other and then support them as they get married and raise children," says Akemi Iwakabe, deputy director of Fukui's Children & Families division.

At 1.34 children per woman, Japan's fertility rate is one of the lowest in the world, well below the 2.1 that is considered the minimum for a developed nation to maintain a constant population. That means the pool of workers and consumers is shrinking, while the ranks of pensioners are swelling. About 23 percent of the population is over 65, the highest ratio among the 62 countries tracked by Bloomberg. "It's difficult to breathe life back into an economy without children, without young people," says Naoki Iizuka, an economist at Mizuho Securities in Tokyo. "When an area like this keeps aging, the public finances of that government won't last."

32%

Japanese women ages 30 to 34 who were unmarried in 2005

The baby deficit is a by-product of more Japanese women postponing or forgoing marriage. Census data show that 32 percent of women between 30 and 34 were unwed in 2005, more than twice the number from 15 years earlier. "I do not think I'll get married until I'm at least 30," says Azusa Takahashi, a 25-year-old employee at a Tokyo publishing company. "With the economy where it is, I can't solely rely on a man's income."

The Democratic Party of Japan came to power last year promising to lighten the burden of child rearing. Starting this year, families began receiving monthly allowances of 13,000 yen ($150) per child, and fees for public high school, which ran at around $115 a month, were scrapped. Prime Minister Naoto Kan also has done his part to encourage procreation: In his previous job as Finance Minister, he encouraged his staff to leave work at 6 p.m. for dates.

Japan isn't the only country experimenting with government-sponsored matchmaking. Singapore's Social Development Network runs a website called LoveByte that dispenses dating advice and allows people to search for other registered singles. Fukui's service will compete with a host of private online dating services such as Tokyo-based O-Net, which has 38,000 members and organizes events such as wine-tasting tours and fashion seminars for women. Organized dating activities called *konkatsu*, or marriage-hunting, are becoming popular. They include 8 a.m. singles breakfasts, Sunday morning book clubs, and–for the civic minded–trash pickup by Shinjuku station in Tokyo.

Some skeptics note that the central government's previous attempts to nudge up the birthrate have not met with success. Shigeki Matsuda, a sociologist at Dai-Ichi Life Research Institute, a Tokyo think tank, says eroding job security is the main reason couples are not making babies. "They don't have financial stability," he says. "That's a problem that can't be resolved by dating support." Ⓑ *—Aki Ito, with Monami Yui*

The bottom line *To reverse a falling birthrate, Japan's central and provincial governments are looking for ways to get singles to click.*

Tom Keene's EconoChat

Tom talks with **Jan Hatzius,** chief U.S. economist at Goldman Sachs, about the weakening economy.

Jan, has the government run out of tools to promote growth?
Additional fiscal stimulus has become much less likely from a political perspective. And once you've hit zero bond rates, it becomes difficult to provide more stimulus on the monetary side as well. That said, we do think that the Fed will eventually move to additional stimulus via more purchases of Treasuries in the markets.

You've thrown some numbers out about the size of such purchases. Are we really talking about another trillion or so added to the Fed's balance sheet?
There's no point in doing anything less than that. The number last time was $1.75 trillion if you add up all the announcements in late 2008 and early 2009.

We've had yields on 10-year Treasuries recently fall to new lows of 2.5 percent or so. Is this the bottom?
The pressure is probably still there for bond yields to come down somewhat further, but I think most of the economic slowdown is discounted at these levels. I think the yields are quite sensible. I don't think there's a bond bubble. This is a reflection of what we're seeing in the economy.

Where are home values going?
Longer term, we'll get back to increases. Over the next one to two years, we'll see renewed declines. We still have a lot of excess supply out there.



Keene hosts Bloomberg Surveillance *7-10 a.m., 1130AM in New York, XM 129, Sirius 130.*

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Contents ▶ The executive UTC can't let go 16 ▶ How PotashCorp became the target of a hostile bid 17 ▶ Supercars: They're all about brand image 18 ▶ Sports gear maker Mizuno swings for the fences 19 ▶ Cancer drug cocktails are coming 20 ▶ Company briefs 21 ● Edited by James E. Ellis



Sutter Health's Pricing Gives Insurers a Headache

▶ Insurers say the Northern California hospital chain uses market power to raise prices

▶ "They are able to dictate terms... Take it or leave it."

After Dr. Mark Logsdon tore a ligament in his knee skiing at Lake Tahoe in March, he returned home to Sacramento and had an MRI scan at Sutter Davis Hospital. Sutter's price for the knee scan was $1,271, payable by Logsdon and his insurer. The same MRI at a local office owned by Radiological Associates of Sacramento would have cost $696, or 45 percent less.

Logsdon didn't know something his insurer does: **Sutter Health**, the nonprofit that owns Sutter Davis, charges 40 percent to 70 percent more than its rivals for a typical procedure, and it requires insurers to keep its rates secret. Sutter, with 2009 revenues of $8.8 billion, can charge these prices because it has acquired more than a third of the medical-care market in the region from San Francisco to Sacramento. The company has taken over more than 20 hospitals in the past 30 years, according to executives at **Aetna, Health Net**, and **Blue Shield of California** who asked not to be named because their agreements with Sutter ban such disclosures. The executives say operating so many of an area's most popular hospitals, doctor groups, and testing facilities gives Sutter the ability to stare down insurers and employers.

The pricing power of local hospital systems has received little attention in the national health-care debate, says Stanford University economist Alain Enthoven. In 2009, as consumer prices fell for the first time in 54 years, the U.S. health bill rose 5.7 percent, to $2.47 trillion, a record 17.3 percent of the economy. "Provider consolidation is driving up health-care costs," Enthoven says.

Sutter Chief Executive Officer Patrick Fry says his company conducts itself properly in a competitive envi ronment. "I don't see Sutter Health as having market power, given the choices that employers can make," he says. "The market has a lot of room to make a lot of decisions."

Federal investigators in five states—Connecticut, Massachusetts, Ohio, Pennsylvania, and New Hampshire—are probing proposed hospital takeovers and consolidating medical practices for evidence of antitrust violations. "The enforcement pendulum has now swung back to where it should be," says Matthew J. Reilly, assistant director of the Federal Trade Commission's competition bureau.

Sutter spokesman William Gleeson says Sutter knows of no antitrust investigation of the company. ➡

RICK FRIEDMAN/POLARIS

*SUTTER'S CALIFORNIA PACIFIC MEDICAL CENTER; PRICES ARE AETNA MIDPOINTS OF A RANGE

Walking away from sheep in New Zealand page 27 ►



Sutter's Premium Pricing

Although many patients don't realize it, the company's prices are higher for many procedures

Procedure	Provider	Price
Family doctor visit	Sutter's Palo Alto Medical Foundation	**$349**
	Stanford Medical Group	**$222**
Colonoscopy	Sutter's California Pacific Medical Center	**$3,200**
	St. Francis Memorial Hospital	**$2,800**
Delivering a baby	Sutter's Palo Alto Medical Foundation	**$5,890**
	Solo practitioner Sarah Azad in Mountain View	**$2,052**
Immunization	Sutter's Palo Alto Medical Foundation	**$85**
	Stanford Medical Group	**$16**
MRI knee scan	Sutter Davis Hospital	**$1,271**
	Radiological Associates of Sacramento	**$696**
Ear wax removal	Sutter's Palo Alto Medical Foundation	**$175**
	Stanford Medical Group	**$104**

DATA: AETNA, BLOOMBERG; PRICES ARE MIDPOINTS OF A RANGE

While it may have higher "unit" prices than its competitors, it is not the most costly for patients over the long run because its integration of hospitals and doctor groups allows it to provide more efficient care, says CEO Fry.

The U.S. has 5,800 hospitals, divided about evenly between nonprofits and for-profits. Nearly 3,000 changed owners from 1994 through 2009, says research firm Irving Levin Associates. Most were rolled into regional chains like Sutter.

The new health-reform law aims to achieve $500 billion in savings over the next decade to help pay for extending coverage to 32 million uninsured Americans. Yet it doesn't address the problem of market concentration—and may make it worse, says Dr. Robert Berenson, a physician and analyst at the Urban Institute. The clout of hospital and physician groups in California is a "cautionary tale for national health reform," he adds, because incentives in the reform law to improve treatment by promoting doctor-hospital alliances could strengthen providers' bargaining leverage.

Higher prices for medical services stemming from hospital mergers that took place from 1997 to 2006 add $12 billion to annual health costs, according to a study last year by Cory Capps, a former Justice Dept. economist. Capps, now a private consultant, says that because of the ability of powerful hospitals to encourage the use of additional medical procedures and the merging of doctors' groups, he might have underestimated the impact by $6 billion to $10 billion annually.

Basic economic theory suggests that competition should narrow big price gaps for the same service. In the U.S., which spends more on health care than any other nation, Sutter and other large local providers show why the theory fails in a system where insurers or third parties foot most of the bills. As it grew, Sutter pursued a strategy to raise prices and make itself "indispensable" to insurance plans, internal company documents produced in a 1999 California state antitrust suit show. Sutter has 24 hospitals, 17 outpatient surgery clinics, and a 3,500-doctor network, making it the largest provider in an 11-county region that is home to 10 million people.

Sutter boasts 35 percent of the revenue and 36 percent of beds in the region, according to a state database. The tallies of 2008 data exclude **Kaiser Permanente**, whose hospitals are only available to plan members. "They are able to dictate terms," says Jeff Emerson, head of managed care for Aetna, the nation's third-largest health insurer. "Sutter says to all of its payers, to the best of our knowledge, 'These are the terms by which you will deal with Sutter. Take it or leave it.'"

Some business groups agree. "Instead of leveraging its system to be more cost-effective, we've seen Sutter leveraging its system for monopoly pricing," Peter V. Lee told Bloomberg in May, while he worked at Pacific Business Group on Health, a coalition that includes **Chevron**, **Walt Disney**, **General Electric**, and **Wells Fargo**. Lee in June became director of health-care delivery system reform for the federal Health & Human Services Dept.

Sutter charges more than many rivals for a wide range of services, from colonoscopies to births (table), according to prices posted on an Aetna website in May, before they were removed. After the removal, the site responded to inquiries about Sutter prices with the message: "Facility does not permit Aetna to disclose fees." Sutter spokesman Gleeson says the company doesn't allow its prices to be disclosed because the data are often misleading and don't reflect the variables of each patient's case.

Cost never occurred to Logsdon, the Sacramento doctor who wrecked his knee skiing. He says he was "shocked" to discover later that the MRI cost nearly twice as much at Sutter Davis as it would have at Radiological Associates, where he is chairman of the oncology division. He says he went to Sutter Davis for convenience. "I guess I'm a textbook case of why policymakers say they need to make patients feel the cost of these things." *—Peter Waldman*

The bottom line *The big hospital chain controls a third of health-care resources in parts of Northern California. Insurers worry that lets it control prices.*

Corporate Governance

When Is An Executive Too Good To Let Go?



► Despite his exit, Ari Bousbib will stay on United Technologies' payroll

► "It allows for some continuity. ... He's a critical guy"

For the past few years, Ari Bousbib has been the man who might leave at any minute. Passed over for the top job at **United Technologies** in 2008, Bousbib, 48, was viewed as a savvy dealmaker, operations whiz, and chief executive officer material elsewhere. Says analyst Nicole Parent of Vertical Research Part-

FROM TOP: DORLING KINDERSLEY/GETTY IMAGES; ILLUSTRATIONS BY MATT OWENS. OPPOSITE PAGE FROM TOP: POTASHCORP OF SASKATCHEWAN/BLOOMBERG; DAVID STOBBE/REUTERS

ners: "It was a matter of when, not if, he would leave."

That moment came on Aug. 16, with the announcement that Bousbib would become CEO of health-care data provider **IMS Health** on Sept. 1. What's surprising is how the president of UTC's commercial businesses, including Otis Elevator and Carrier, is leaving. UTC stated in its press release that Bousbib will remain a consultant through September 2011. He will get a fixed retainer of $325,000, plus expenses, to provide advice and assistance concerning "recently formed joint ventures and business combinations, business development opportunities and customer relationships," according to a company SEC filing. UTC and Bousbib declined to comment.

Pay and governance consultants call the arrangement unusual. "I don't think I've ever come across a situation where someone is going to be a CEO and is kept on as a consultant," says Paul Hodgson of the Corporate Library, an independent research group. Paul Dorf, managing director of pay consultancy Compensation Resources, doesn't see the point: "If they haven't developed enough of a management structure for him to leave, that's a problem."

Typically, says Dorf, post-employment consulting contracts are used to augment compensation for a retiring executive, ease out a leader whose company is acquired, or maintain links to someone with unique knowledge or relationships the company needs.

Although unusual for executives moving to a new job, such contracts are not unprecedented. In 2008 telecom equipment maker **JDS Uniphase** gave departing CEO Kevin Kennedy a one-year "transitional consulting agreement" worth $800,000 as he moved to become CEO of telecommunications company **Avaya**. (Avaya spokeswoman Deborah Kline says Kennedy wasn't available to discuss the contract.) Like IMS, Avaya is privately held, which makes it easier to strike such a deal.

Still, many other public-company stars have headed into private equity without one. David Calhoun, the former vice-chairman of **General Electric**, wasn't paid another dime after he left to lead **Neilsen** in 2006. He also left tens of millions of dollars in unvested stock options and retirement benefits.

So why the consulting arrangement? Money might be one factor, compensation experts say. The contract could allow more time for Bousbib's UTC stock options to vest or for performance targets to be reached. Certainly, the retainer fee alone isn't likely to mean much to a man who received $8.8 million in total compensation last year and has options valued at almost $39 million. Stern Agee analyst Nick Heymann says the setup is probably designed to comfort UTC investors and employees. "It allows for some continuity and accountability," says Heymann. "He's a critical guy."

During Bousbib's 14 years at UTC, the Paris-born engineer turned Otis Elevator into the company's "crown jewel," boosted margins at Carrier, and orchestrated smart acquisitions such as GE Security, says Vertical Research analyst Parent.

Still, few expect Bousbib to spend much time doling out advice. For one thing, he'll have his hands full with IMS, which was purchased in February by TPG Capital, the Canada Pension Plan Investment Board, and Leonard Green & Partners. Analysts expect Bousbib ultimately to take the company public, so UTC may have to compete for his attention. —*Diane Brady*

The bottom line *Bousbib's contract raises questions about how he can consult for UTC and run another company at the same time.*



Global demand for potash, a key component of fertilizer, is booming

Takeovers

As Crop Demand Grew, Potash Became a Target

- Strong demand for its vital fertilizer has drawn a $40 billion hostile bid
- "You feel trapped ... because there's nothing you can substitute for it"

PotashCorp of Saskatchewan Chief Executive Officer William J. Doyle says he has tasted what's driving global demand for fertilizer on the Chinese mainland. "When I first went to China in 1979, we were eating monkey brains, crickets, and sea urchins," Doyle, 60, said in an interview. "Today you go to China and they ask you if you want to split a beef tenderloin."



Doyle called BHP Billiton's $130-a-share offer "beyond opportunistic"

As China booms, so does its appetite for meat, powering global demand for crops used as animal feed. Growing use of fertilizer to boost those crop yields has turned Potash, which controls 20 percent of the world's supply

Autos

Brand Image Drives These Supercars

Toyota has long been known as a producer of sensible, well-priced rides. But President Akio Toyoda, a racing fan, wants to change that image with the new Lexus LFA. At triple the price of a Porsche 911, the $375,000 supercar won't be a high-volume model. "Cars like the LFA are brand builders," says Ashvin Chotai, managing director of Intelligence Automotive Asia. "Halo" cars have had a mixed record, however. *—Makiko Kitamura and Yuki Hagiwara*

★ Lexus LFA
$375,000
Toyota has received firm orders for all 500 units of the limited-production model, which the company will start building in December.

Dodge Viper
From $90,255
First sold in 1992, the current-generation Viper is in its final model year. Chrysler, which filed for bankruptcy in April 2009, said it drew no bidders for the Viper business from August 2008, when it went up for sale, to July 2009.

Volkswagen Phaeton
$84,000
The original version went on sale in 2002. The latest upgrade hit European showrooms in June and goes on sale in China next month. VW says it will be reintroduced in the U.S. (It was pulled from the American market in 2006 after failing to meet sales goals.)

Nissan GT-R
From $84,060
The model, which went on sale in Japan in December 2007, is a revival of Nissan's Skyline GT-R series, made from 1969 to 2002.



of its namesake fertilizer component, into Canada's fifth-largest company by market capitalization. That demand also spurred **BHP Billiton**, the world's biggest mining company, to make a $40 billion hostile bid for Potash last week.

Doyle, a former fertilizer salesman who runs Potash from offices in Saskatoon, Saskatchewan, and his native Chicago, rejected the $130-a-share offer as "beyond opportunistic" and is pursuing discussions with other potential investors. China's **Sinochem Group** and Brazil's **Vale** made initial inquiries with Potash's board in late August about possible talks, a person with knowledge of the matter said. Potash shares have advanced 30 percent since Aug. 17, when the company disclosed BHP's approach.

Since Doyle was appointed CEO in 1999, Potash has seen average annual returns of 26 percent, more than triple the 6.8 percent advance of the S&P Toronto Stock Exchange Composite Index. While delivering to shareholders, the Potash boss has drawn criticism from farmers worldwide after potash prices soared two years ago. He's also been grilled by union officials about his pay, which last year totaled $9.7 million. The 2.93 million shares and options he held, according to a Feb. 19 filing, would have a value of $445 million based on BHP's offer.

Doyle brushes aside such concerns. "These comments about what I make or might make, I just laugh at that," Doyle says. "I really don't care about that. I work and do what I do because I love it."

Doyle grew up near Chicago before graduating from Georgetown University in 1972. After college, he set out on a motorcycle trip across the back roads of Europe. "I saw agriculture in 37 different countries, sleeping outside 13 out of 14 months, by myself, and came back and said, 'You know what? Those people with their fingers in the dirt and harvesting something every year, that's what I want to be associated with,' " he says. After the trip he joined **International Minerals & Chemical**, a maker of potash and crop nutrients. By 1982, he was vice-president for export sales.

26%

PotashCorp's average annual return since Doyle became CEO in 1999

Doyle moved to Potash in 1987 at the invitation of Charles E. "Chuck" Childers, an IMC executive hired by Saskatchewan to improve performance at the company, then owned by the provincial government. "We made a deal with them: We'll come, but only if you let us run it like a business," Doyle said in a May 2008 interview. "You take care of the social and political agenda, but you stay out of the business."

Doyle was available only because IMC didn't offer him one of the retention bonuses given to employees considered at risk of quitting to join Childers. "Bill was probably not one of their key people," Childers, 77, said from his home in Denver. "They thought I needed a domestic salesperson, but I surprised them."

Potash shares began trading in To-

OPPOSITE PAGE: THE ORANGE COUNTY REGISTER/ZUMA PRESS

ronto in 1989. Doyle ran the company's potash sales through most of the 1990s while Childers expanded the company through a series of acquisitions. After Childers retired, Doyle took over. He bet on increased potash demand by boosting spending on mine expansion in 2003 and 2004. As fertilizer prices surged, Doyle became the "poster child" for the industry's image problems, says Hugh Loomans, CEO of **Sylvite Group**, a Burlington (Ont.)-based fertilizer distributor. "People in the farming community are still upset about those price increases," says Loomans, who has served with Doyle on the board of the Fertilizer Institute, an industry lobbying group.

Potash for immediate delivery in Vancouver jumped to $650 a metric ton in June 2008, from $190 a year earlier. Prices rose by a similar amount from China to Latin America, angering growers globally. "First the price doubled, and then it tripled," says Brian Willott, who farms soybeans and corn near Palmas in Brazil. "You feel kind of trapped because there's nothing else you can substitute for it." Potash investors hope that continues to be the case. —*Christopher Donville and Laura Marcinek*

The bottom line *With global demand for fertilizer booming, PotashCorp has drawn a $40 billion hostile bid. The company says it's not enough.*

Consumer Products

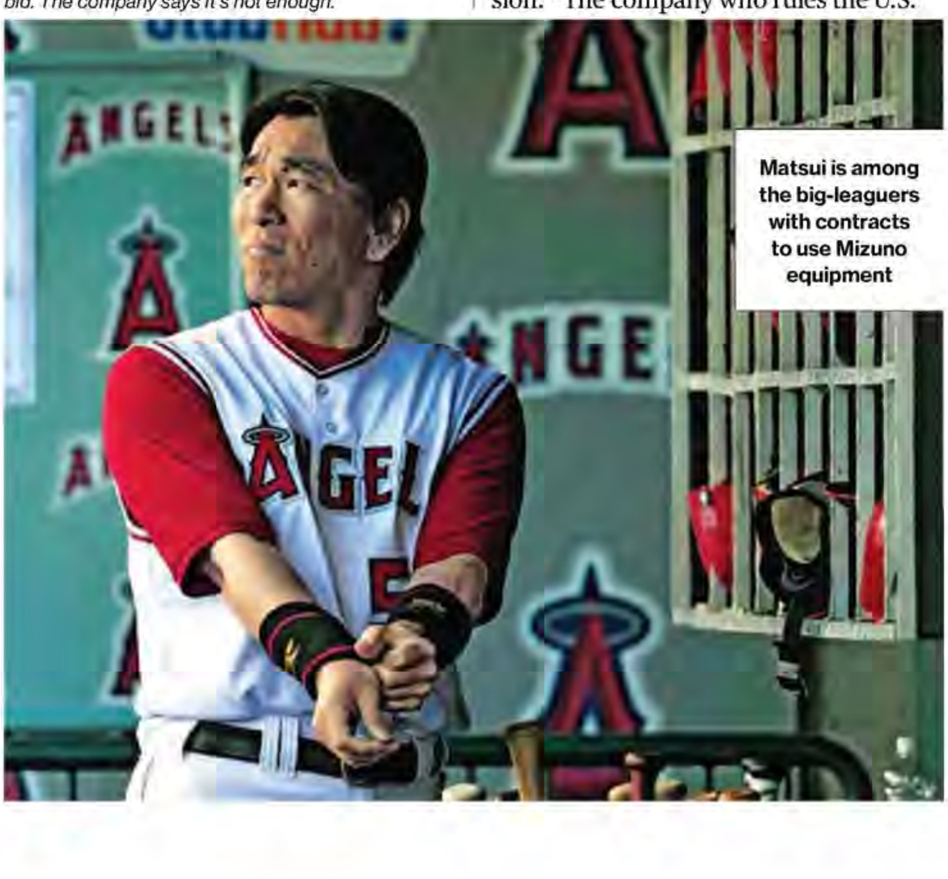
Japan's Mizuno Swings For the Fences

▶ The sports equipment maker is focusing on U.S. expansion

▶ "We will fight with gloves and spikes"

Mizuno, the Japanese maker of baseball gloves and bats for major leaguers Ichiro Suzuki and Hideki Matsui, is on a summer road trip to win more respect in the $1.8 billion U.S. baseball equipment market. In recent weeks the company has dispatched a caravan of blue-and-white vans to showcase its gear and gloves at stadiums, amateur fields, and sporting goods stores in California, Ohio, Indiana, and Kentucky.

Mizuno is targeting these baseball strongholds to boost its U.S. sales by 33 percent, to $100 million, by 2015. A lot is at stake for the Osaka-based sporting goods company, which is up against entrenched rivals such as **Nike**, **Rawlings**, and **Spalding**. Mizuno has pulled out of markets in Europe and Latin America to focus resources on the U.S., says Hideki Tsuruoka, director of its baseball division. "The company who rules the U.S. market can rule world markets," says Tsuruoka, who played baseball at the University of Washington. "We will fight with gloves and spikes."



Matsui is among the big-leaguers with contracts to use Mizuno equipment

Mizuno has some ground to cover before becoming a dominant player. It ranked No. 6 in U.S. baseball and softball retail sales last year with an 8.2 percent share, according to data compiled by SportsOneSource. Mizuno is making its baseball push as the number of U.S. players declined 13 percent, to 13.8 million, last year from 15.8 million in 2000, according to data from the Sporting Goods Manufacturers Assn.

The field also is getting more crowded. Spalding is returning to the baseball equipment market after an absence of 10 years. "Baseball is kind of a no-brainer with our heritage," says Dave Coradini, senior director of diamond sports for Spalding, founded in 1876 and now a division of the Russell unit of **Berkshire Hathaway**. "Mizuno and Rawlings are certainly the two strongest in terms of entire baseball-equipment brands. Now we are going to compete against them."

Mizuno enjoys some beneficial ties to Major League Baseball. About 170 players have contracts to use Mizuno gear and appear in the company's ads. "I've been using Mizuno since my childhood because of its quality," Matsui, a former New York Yankee, said in an e-mail. "Some of my teammates have come up to me and said, 'I want to try that' or 'I want to borrow that.'"

As part of its U.S. marketing push, Mizuno has increased the number of its American field representatives, who work with schools and baseball leagues, to 11 from 2. It also will install glove steamers at U.S. sporting goods shops to help customers break in their mitts. Later this year, the company will intensify its promotion of baseball equipment and clothing on U.S. websites and social networking outlets, says Bram Krieger, Mizuno's sales vice-president for diamond sports.

One big plus for Mizuno is its reputation for quality among professional baseball players. Pete Rose and Bobby Valentine were among the first major leaguers to wear Mizuno's mitts soon after the company entered the American market in 1969. "It was very difficult for a foreign company to enter the baseball world," says Valentine, who

has managed the Texas Rangers, the New York Mets, and Japan's Chiba Lotte Marines. "The craftsmanship was so spectacular, and all of the details were made to perfection."
—Go Onomitsu and Shunichi Ozasa

The bottom line *Mizuno, the leading maker of baseball equipment in Japan, is using a grassroots approach to increase its business in the U.S.*

Pharmaceuticals

Cocktails Are Next For Cancer-Drug Makers



▸ **Big Pharma turns to the multi-drug approach that transformed AIDS**

▸ **The new drug regime "has the potential to be revolutionary"**

A diagnosis of AIDS was a death sentence until the advent of drug cocktails in the 1990s allowed patients to suppress the disease indefinitely. Now scientists say a similar combination strategy may change the course of cancer treatment.

That's the bet being made at **Roche Holding**, **AstraZeneca**, and **Sanofi-Aventis**, whose latest efforts to develop a new generation of combination treatments are prompting the U.S. Food & Drug Administration to rewrite the rules for drug research. The FDA guidelines, not yet public but expected this year, may shave five years off development time lines and lead to dramatically better drugs, says Ira Mellman, head of cancer research at Roche's Genentech unit.

For more than a decade, cancer researchers have been crafting drugs to disrupt the precise cellular processes that fuel cancer, creating a $51 billion market in 2009. So far, the survival benefits have been measured in months, not years. That's because cancer, like the virus that causes AIDS, evolves rapidly to evade a single treatment. Rather than mixing and matching approved drugs, researchers are developing new, targeted combinations that work in tandem to block cancer.

"We're looking to see a radical change in terms of stopping the disease in its tracks," says Tal Zaks, head of global oncology drug development at Sanofi in Paris. "The return on investment here is not going to be just evolutionary; it has the potential to be revolutionary."

Cocktails of experimental drugs wouldn't have been possible just five years ago, when FDA rules required that the merit of each active ingredient be proved before it could be added to a combination. The FDA worried about approving a combination in which one part was useless, or worse, harmful.

Today, after 20 years of work on the human genome, scientists have new insights into the cellular and genetic links between different disease pathways. As a result, the FDA is ready to allow testing of drug cocktails designed to hit cancers at multiple points, says Richard Pazdur, the FDA's top cancer regulator. "This is an era of a greater understanding of the disease," Pazdur says.

Savings for drugmakers could be substantial if the FDA, as expected, sets up a path to allow companies to forgo differentiating the drugs during the last and most expensive trials needed for regulatory approval. Those studies, pivotal phase III trials, can cost hundreds of millions of dollars and take years to complete.

$51 BILLION

Global sales of cancer drugs in 2009, according to IMS Health

Companies are taking different approaches to combination treatments. **Pfizer**, the world's biggest drugmaker, and Roche, the world's largest maker of cancer medicines, are developing the needed parts in their labs. Roche's leading combination began safety tests in patients this year, and Pfizer has four combinations in early human trials.

A second group of companies is looking outside to acquire components. **Novartis** and **GlaxoSmithKline** started two studies this year combining an experimental drug from each company. AstraZeneca and **Merck** also began a collaborative trial. Meanwhile, Sanofi has licensed a molecule that inhibits a cancer-related enzyme from **Exelixis** and an antibody against a separate protein target from **Merrimack Pharmaceuticals**. It will combine the two into a new drug based on a recipe concocted by its own scientists. Such collaborations and acquisitions are likely to increase as FDA regulations are clarified, Zaks says.

Combining drugs is not new. Doctors began mixing chemotherapies more than 40 years ago to reduce side effects and improve outcomes. Com-

Drawing Board



FROM TOP: ILLUSTRATION BY GREG MABLY; ILLUSTRATION BY STEVE BREEN/CREATORS SYNDICATE.
OPPOSITE PAGE, FROM TOP: STUART FRANKLIN/GETTY IMAGES; DANIEL ACKER/BLOOMBERG; LEW ROBERTSON/CORBIS

pared with targeted therapies, though, chemo can be a blunt instrument that wipes out a wide swath of cells, including healthy ones.

Cancer begins when a gene mutation triggers some cells to divide faster than normal. Aberrant cells multiply to form tumors with billions of units competing for blood nutrients. The competition and rapid reproduction yield additional mutations that help the cancer grow and eventually take root in new organs. Through similar adaptations, cancer develops resistance to medicines.

The first studies of targeted cocktails better able to prevent cancer from escaping will be released in 2012, says Harish Dave, global head of hematology and oncology at clinical trial firm **Quintiles Transnational**, which had a role in 48 of the 50 best-selling cancer drugs. "We may see something very interesting come out," he says. However, the risk of the therapy "is that you could be shutting down so many activities in the cell that it could be toxic."

Cancer drugs aren't cheap. **Dendreon**'s Provenge treatment for prostate cancer, for instance, sells for $93,000 for the one-month, three-dose cycle. Total sales of cancer drugs have risen 10 percent to 20 percent a year for a decade, according to research firm IMS Health. And combinations of cutting-edge targeted drugs will likely drive costs for patients and insurers even higher, since each component is so expensive.

"Five years ago, you couldn't get companies to agree to combine their agents," says John J. Wright, a senior investigator at the National Cancer Institute's drug evaluation program. That led the NCI to broker a legal framework—assuring each company maintains rights to its components during cocktail trials—that's leading companies to collaborate.

The first combinations available to patients will be mash-ups of existing treatments, such as Roche's Avastin and **Bayer**'s Nexavar. Yet Roche's Mellman says combinations of pre-approved treatments are "old school," and that the real potential for drugmakers will be in the next generation of targeted cocktails, "driven by scientific discovery that starts in the laboratory." —*Tom Randall*

The bottom line *Taking a cue from the cocktails of drugs that have made AIDS survivable, drugmakers are pursuing combination therapies against cancer.*

In brief

by David Rocks



After a string of tournament losses, sales of Woods' signature clothing line from Nike have fallen

Nike

Scandals? No Worries. Bogeys? No Way

Fans of Tiger Woods have put up with the philandering, the saucy text messages, and the domestic fallout. They may draw the line, though, at trouble on the fairways and greens. Retailer Golfsmith International reports sales of Tiger Woods' signature line of Nike golf clothing are off by 7.5 percent this year while overall golf apparel sales have risen 11 percent. Other golf stores report similar declines. Since his marital troubles emerged last fall, Woods hasn't won a tournament and he's No. 83 on this year's PGA Tour money list.

Apple

Finally, There's An App For Apple TV

A new version of the poor-selling Apple TV set-top box, to be unveiled at a Sept. 1 event in San Francisco, will cost $99, vs. $229 for the current incarnation, says a person familiar with Apple's plans. And the device may run apps like those written for iPhones and iPads. It's all part of a new video strategy aimed at steering more business toward the iTunes store by letting customers watch clips, shows, and movies on multiple Apple devices. Also in the cards: a new iPod touch with a better screen and rentals of TV shows for 99¢ an episode. (Today, shows are only available for purchase, for $1.99.)



DuPont

Closing In on the Biotech Seed Crown

In the battle for the wallets of the American heartland, DuPont is gaining as farmers question the need for higher-cost seeds from rival Monsanto. DuPont now has 30 percent of the U.S. soybean seed market, vs. Monsanto's 28.5 percent. And DuPont has expanded its share of the corn seed market to 34 percent, closing in on Monsanto's 36 percent. Monsanto, whose innovations have helped increase plantings of genetically modified crops, hasn't seen any growth in U.S. corn and soybean seed sales for the past two years. The company now plans to cut prices and offer seeds with fewer genetic modifications.

China Railway

All Aboard For South Africa

Beijing-based construction giant China Railway Group says it's in talks to build a $30 billion high-speed rail project in South Africa. Driving the 352-mile route between Johannesburg and the eastern port city of Durban can take seven hours, while a high-speed train could complete the trip in roughly three. South Africa hopes Chinese state-owned banks will provide loans for the rail line, China Railway says.

Barnes & Noble

A Brawl Over the Bookseller Heats Up

Barnes & Noble reported first-quarter losses of $63 million and an 11th straight quarter of declining sales. The company put itself up for sale on Aug. 3 under pressure from billionaire Ronald Burkle, who has been adding to his stake in the bookseller and is battling management over board nominations. On Aug. 25, B&N management urged investors to reject Burkle's board nominees, saying he and his proposed slate of directors have participated in "some of the most spectacular technology and corporate failures in history." Barnes & Noble shares have lost nearly 25 percent of their value this year.

Foster's

Down Under, Trouble In the Vineyards

Australian beverage giant Foster's posted a second-half loss after a $1.1 billion writedown on its wine division. The company reported a net loss of $725 million for the first half, vs. a net gain of $21 million in the same period last year. After enduring charges of $2.4 billion at the wine unit over the past seven years, the company may soon spin it off, even though business has picked up recently.



There are usually only a couple of smart things said in any meeting.

Say them both.

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Contents ▶ Vilsack's about-face on ag subsidies 24 ▶ Why European and U.S. monetary policy may part ways 25 ▶ The GOP's recruiting success among former jocks 26 ▶ New Zealand's sheep farmers plant trees 27 ● Edited by Paula Dwyer

Politics&Policy

Let a Thousand Regulators Bloom



▶ As agencies begin rewiring Wall Street, job openings abound

▶ "We're talking about soup to nuts, building a new regulatory infrastructure"

Anyone who thought the battle over Wall Street reform ended with passage of the Dodd-Frank Act and President Barack Obama's July 21 signature hasn't seen Kayla Gillan's whiteboard.

Gillan, the deputy chief of staff to Securities & Exchange Commission Chairman Mary L. Schapiro, is in charge of coordinating the commission's implementation campaign, and she's covered her office whiteboard with dense, color-coded columns of tasks and deadlines that have already spilled over to some adjacent poster boards. There is little time to spare. A rule requiring the registration of financial advisers to municipal governments is due on Oct. 1, and myriad others must follow in quick succession.

While hotly contested issues like limits on banks' proprietary trading and a new consumer protection agency got most of the attention during the financial overhaul debate, the SEC alone will be issuing some 100 rules covering derivatives, hedge funds, asset-backed securities, and executive pay. The agency needs to hire 25 examiners right away for a new office of credit-rating agency oversight.

Rewiring Wall Street does not come cheap. The Treasury hired Booz Allen Hamilton to help design the legislation's new consumer protection agency and draw up what could be a $400 million budget next year. The SEC expects to increase its budget by about 20 percent in the next fiscal year, to $1.2 billion, more than triple its size in 2000. Its staffing is expected to increase by more than 1,000 people, some 800 just to deal with the reforms, to about 4,700, a 36 percent jump from the head count in 2007, before the financial meltdown. The legislation "creates a whole new regulatory regime," and implementation is "a massive undertaking," says the SEC's Schapiro. "This will fill regulatory gaps that have plagued the system, gaps that have long needed to be filled."

To keep the heat on the agencies, Amy Friend, the chief counsel to the Senate Banking Committee, whose chairman, Chris Dodd (D-Conn.), co-wrote the law, has been holding conference calls with regulators

ILLUSTRATION BY SOPHIA MARTINECK

this month to check on their progress. Dodd plans to hold a hearing with the SEC, the Commodity Futures Trading Commission (CFTC), the Federal Reserve, and other bank regulators at the end of September to make certain they're on track.

The effort is daunting in part because it involves writing rules for businesses that are both huge and currently unregulated, such as some trading desks for currency, interest rate, and credit-default swaps. "We're talking about soup to nuts, building a new regulatory infrastructure for some completely unregulated areas that are multitrillion-dollar industries," says Annette L. Nazareth, a securities lawyer with Davis Polk & Wardwell and a former SEC Commissioner. By contrast, Nazareth says, the well-developed regulations for equity trading took shape over decades. In addition, the SEC must produce more than 20 studies of important financial issues in advance of writing some of the new regulations, and so the agency has to take competitive bids, then hire outside experts to produce the research.

4,700

Expected SEC headcount once it hires staff to implement reforms

The same drill is consuming the other major agencies. The Federal Deposit Insurance Corp.'s board voted on Aug. 10 to create two divisions to handle its duties, including an Office of Complex Financial Institutions, which will need as many as 200 staff members. The agency has already rented office space in Virginia to handle expansion. Among the FDIC's new responsibilities will be winding down large, systemically important banks, securities firms, and insurance companies that might be on the verge of failing, to avoid the ad hoc bailouts of the last crisis. Staff planning for the new regulations began months before the bill passed. Two conference rooms on the sixth floor of the FDIC's Washington office housed an implementation working group. One team led by Michael H. Krimminger, a deputy to FDIC Chairman Sheila C. Bair, sketched out the agency's new role in shutting down failing institutions, while another deputy, Jason C. Cave, led the preparations for the FDIC's expanded bank supervision powers.

At the Treasury, Deputy Secretary Neal S. Wolin is spearheading the effort, including creation of the interagency Financial Stability Oversight Council, already dubbed F-Sock by the reform cognoscenti. To be led by Secretary Timothy Geithner, the council will assess systemic risks and plans to hold its first meeting next month. And at the Fed, Jim Lyon, chief operating officer of the Minneapolis Federal Reserve Bank, was named to coordinate what the central bank has identified as 350 projects, including 50 rules, that the law requires.

Even the process for issuing regulations has been reworked in an attempt to make it more transparent. The FDIC, the SEC, and the CFTC will accept industry comments before the proposed rules have been written, a shift from the past when industry generally could offer ideas only after proposed regulations had been drafted. All meetings between agency staff and outsiders will be posted on websites, and visitors must provide an agenda beforehand. The comment period, which allows interested parties to try to influence the final result and can run as long as 90 days, in some cases will shrink to 30 days.

One thing all the agencies say they will do is fight any effort by Wall Street to re-debate the legislation. Schapiro says opening the process to the industry does not mean Congress's intentions are open to question. "The law is the law," she says.

—James Sterngold, with Robert Schmidt, Phil Mattingly, and Matt Robinson

The bottom line *How Washington is increasing its regulatory firepower:*

SEC *The agency will issue some 100 rules for derivatives trading, credit rating companies, stockbrokers, hedge funds, and corporate boards.*

CFTC *It will write about 60 rules as it oversees with the SEC exchanges, clearinghouses, capital reserves, and recordkeeping for derivatives trading.*

Federal Reserve *Regulating systemically risky companies falls to the Fed, which must write about 50 rules, including proprietary trading limits for banks.*

FDIC *Liquidation of troubled financial companies will be the FDIC's job. It will also set new capital rules for community banks.*

Treasury *Its secretary will chair the Financial Stability Oversight Council for monitoring system risks. It will also set up the consumer protection bureau.*



Agriculture Secretary Vilsack (left), who wants to reduce farm subsidies, listens to a farmer during the Iowa State Fair

Rural Policy

How Vilsack Wandered Off the Farm

- Obama's point man on agriculture is playing tough on subsidies
- "A lot of them don't know where their food comes from"

Former Iowa Governor Tom Vilsack knows that Farm Belt protocol requires paying respect to the Butter Cow. During a visit to the Iowa State Fair on Aug. 17, he made the pilgrimage to the 600-pound bovine sculpture carved from pure creamery butter. Now that he is Agriculture Secretary, however, Vilsack wants to take a chunk out of another far more sacred cow: the $15.4 billion in federal farm subsidies.

Record federal deficits and changing priorities are spurring the Obama Administration to redefine who receives rural aid. The government is shifting payments to broadband providers, land conservation efforts, and nutrition programs. To many farmers, the changes seem designed to satisfy organic food devotees, First Lady Michelle Obama's anti-obesity cause, weekend duck hunters, and small-town Internet users—everyone, that is, except traditional farm-

FROM TOP: PHOTOGRAPH BY DANNY WILCOX FRAZIER FOR BLOOMBERG BUSINESSWEEK; DANIEL ACKER/BLOOMBERG



ers. Kris Luoma, 55, a cattle rancher and crop insurance salesman visiting the Iowa fair from Arcadia, Neb., blames the ignorance of Washington policymakers. "A lot of them," he says, "don't know where their food comes from."

Vilsack's Agriculture Dept. in July trimmed $6 billion in payments to crop insurers during the next decade. Now he's looking at cuts of as much as $5 billion a year from an automatic payments program that rewards farmers even if they grow nothing. Vilsack is the chief messenger of this change, a turnabout for farmers who have known him as one of their most prominent advocates.

The timing makes growers especially uneasy. Agriculture, like the rest of the economy, is experiencing a fragile recovery. Corn, soybean, and wheat prices are at least 39 percent below records set in 2008. Farm profits fell 35 percent last year to their lowest level since 2002, says the USDA.

Agriculture payments have withstood challenges before. The last significant attempt to cut subsidies, in 1996, led to a backlash–and bailout checks for farmers after export declines and heat waves persuaded lawmakers to abandon cost-cutting. This time the $1.3 trillion annual federal deficit will make changes stick, says House Agriculture Committee Chairman Collin Peterson, the Minnesota Democrat whose district's $243 million in 2009 subsidy payments ranked it No. 6 out of 435.

Vilsack calls the deficit an incentive to revamp farm support and redirect funds to alternative energy and broadband projects. With more farmers relying on small-town jobs to make ends meet, and even then with incomes trailing those in urban areas by 29 percent, rural economies need to diversify, Vilsack says. Done right, government programs will benefit everyone, he adds, including crop growers and ranchers who need thriving communities nearby. "If you prime the pump properly, you get a better return on investment."

While as much as $5 billion in automatic payments to farmers would go to the Administration's new rural initiatives, Vilsack says he's hopeful that the crop insurance reductions will satisfy deficit-cutting demands. Still, some growers worry that the White House will force further cuts in automatic payments, which farmers use to repay bank loans or finance new ones. And they fear unintended consequences from dramatic shifts in land use. "I'm trying to raise cows, and the government spends money to take land out of production for pheasant hunters," says Glenn Johnson, 37, a rancher from Pipestone, Minn. "You close up the programs, and it'll be the 1980s all over again," when record foreclosures cut the number of U.S. farms by 11 percent, to 2.17 million.

Representative Frank Lucas (R-Okla.), the ranking Republican on the House Agriculture Committee, calls Vilsack a "nice guy" drowning in bad ideas. He listens too much to environmentalists and "foodies" who care more about how crops are produced than whether farmers can make a living, Lucas says. Vilsack disagrees. "I might have a slightly different emphasis, but you can't say I'm not trying," he said. —*Alan Bjerga*

The bottom line *Making good on Obama's campaign promise to cut farm subsidies, Agriculture Secretary Vilsack is disappointing some farm-state friends.*

Monetary Policy

The U.S. and Europe Are Decoupling

- Diverging economies are the talk of the Jackson Hole conference
- "The Fed has an employment issue, and Trichet does not"

Federal Reserve Chairman Ben Bernanke and European Central Bank President Jean-Claude Trichet, who united to fight the worst global recession in seven decades, may be diverging over the outlook for their economies.

The Fed on Aug. 10 said U.S. growth would be slower than anticipated in the "near term," and restarted purchases of Treasury bonds to keep interest rates from rising. Trichet, in contrast, said on Aug. 5 that the euro-area economy was surpassing forecasts, which may pave the way for the ECB to phase out emergency lending measures. The transatlantic divide may be on display on Aug. 27, when each central bank chief was set to address his counterparts and



Fed Chairman Bernanke at last year's Jackson Hole conference

economists at the Fed's annual symposium in Jackson Hole, Wyo. Policymakers from more than 35 nations planned to gather at the Jackson Lake Lodge for debates and hiking trips in the shadow of the Teton mountains.

Attitudes on the economy have shifted sharply in just a few months. In May, the European fiscal crisis forced Trichet to buy government bonds for the first time. And in April, Bernanke discussed how and when to shrink the Fed's balance sheet. Now, the ECB is "looking to the timing of an exit policy, whereas the Fed has obviously put that on the back burner," Mickey D. Levy, chief economist at Bank of America, said in an Aug. 24 Bloomberg Radio interview with Tom Keene. "The U.S. economy right now is in a soft patch and feels fragile, while in the aggregate the European economies have seemingly weathered the storm much better than people expected."

To Julian Callow, chief European economist at Barclays Capital, the disparity, which could strengthen the euro against the dollar, has "shades of 2008," a reference to the ECB's decision in July of that year to break with other central banks and raise interest rates even as the credit crisis mounted. But by October 2008, Bernanke was collaborating with Trichet and other central bankers on the broadest coordinated interest rate cut in history. The different outlooks probably reflect the Fed's mandate to achieve "maximum employment" and low inflation compared with the ECB's sole focus on stable prices, says Steven Bell, chief economist at London-based hedge fund GLC and a former British Treasury official.

U.S. indicators are increasingly pointing to slower growth, with gains in private payrolls falling to an average 51,000 monthly pace in May through July, from 119,000 in the first four months of 2010. "The Fed has an employment issue, and Trichet does not," says Diane C. Swonk, chief economist at Chicago-based Mesirow Financial. If weakness in the U.S. economy persists, she says, "I don't think they'll have much choice" but to restart large-scale purchases of mortgages and other assets. *—Simon Kennedy and Scott Lanman*

The bottom line *As the Federal Reserve ponders more stimulus, the ECB could soon look for the emergency lending exit ramp.*

Athletes Running

Winning Office Is No Slam Dunk

As a 6-foot, 11-inch center for the Portland Trailblazers, Chris Dudley had no problem snagging rebounds. But can he fight off an attack ad? Dudley, a contender for governor of Washington State, is one of four former professional athletes running for national or state office. Two others recently lost primary battles. All are Republicans. Party recruiters deliberately targeted former







Jay Riemersma

Pittsburgh Steelers

U.S. House (Michigan)

The Stats: He was a tight end in the NFL for nine years until his 2004 retirement. In 2007, Riemersma became a regional director for the Family Research Council, a conservative lobbying group. Running on a "playbook" that included a 15 percent corporate tax rate and a cap on federal spending of 20 percent of national output, he narrowly lost an Aug. 3 Republican primary.



Keith Fimian

Cleveland Browns

U.S. House (Virginia)

The Stats: After playing fullback in college, Fimian briefly played for the Browns. In 1986 he co-founded U.S. Inspect, a property inspection business, which he now chairs. He ran for Congress in 2008 and lost to Democrat Gerry Connolly. After winning a June primary, Fimian, who opposes the proposed mosque near the World Trade Center site, will face Connolly again on Nov. 2.



Shawn Bradley

Dallas Mavericks

Utah House of Representatives

The Stats: Bradley was the second pick in the 1993 NBA draft when he went to the Philadelphia 76ers. He started with the Mavericks in 1997 and spent eight years as the team's center before retiring in 2005. Nicknamed "The Stormin' Mormon," Bradley, 7'6", is running on a fiscal responsibility platform for a seat in Utah's legislature against Democratic incumbent Tim Cosgrove.



TOP ROW, FROM LEFT: KARL WRIGHT/ICON SMI; COURTESY KEITH FIMIAN; LM OTERO/AP PHOTO; GIN ELLIS/GETTY IMAGES; ROCKY WIDNER/NBAE/GETTY IMAGES; DREW HALLOWELL/ICON SMI. BOTTOM ROW, FROM LEFT: ROLL CALL/NEWSCOM; DAYNA SMITH; RAFIQ MAQBOOL/AP PHOTO; GREG GILBERT/THE SEATTLE TIMES; LEAH NASH/THE NEW YORK TIMES/REDUX; MEL EVANS/AP PHOTO

Why Lexmark wants you to print less page 36►



pro athletes like Jon Runyan, a star tackle for the Philadelphia Eagles now seeking a U.S. House seat, because they have name recognition and can raise funds more easily than other candidates. It also doesn't hurt that sports fans are a demographic that "tracks Republican voting pretty well," says Ross Baker, a Rutgers University political scientist. *—Kate Andersen Brower*



Clint Didier

Washington Redskins

U.S. Senate (Washington State)

The Stats: Didier won two Super Bowl rings as a tight end with the Redskins before retiring in 1989. A Tea Party favorite, Didier lost an Aug. 17 primary, getting only 12.6 percent of the vote, despite backing from former Alaska Governor Sarah Palin and Republican Representative Ron Paul of Texas, proving that winning takes more than endorsements.





Chris Dudley

Portland Trailblazers

Governor (Oregon)

The Stats: Some voters are more impressed by Dudley's six seasons as a center for the Blazers than his Yale degree or investment firm partnership. That's fine with him: "Take it any way you can get it," says Dudley, who has a $1 million fund-raising advantage. He emphasizes job creation and spending cuts. Polls show him even with ex-Democratic Governor John Kitzhaber.





Jon Runyan

Philadelphia Eagles

U.S. House (New Jersey)

The Stats: Runyan, 36, played 13 seasons of professional football, including nine with the Eagles, before retiring in 2010. He won the Republican primary on June 8 and will face the incumbent, Democrat John Adler, in the Nov. 2 general election. Lower taxes and a balanced budget are key issues for the former offensive tackle, who trails Adler in the polls.



Global Warming

New Zealand Farmers Harvest Carbon Credits

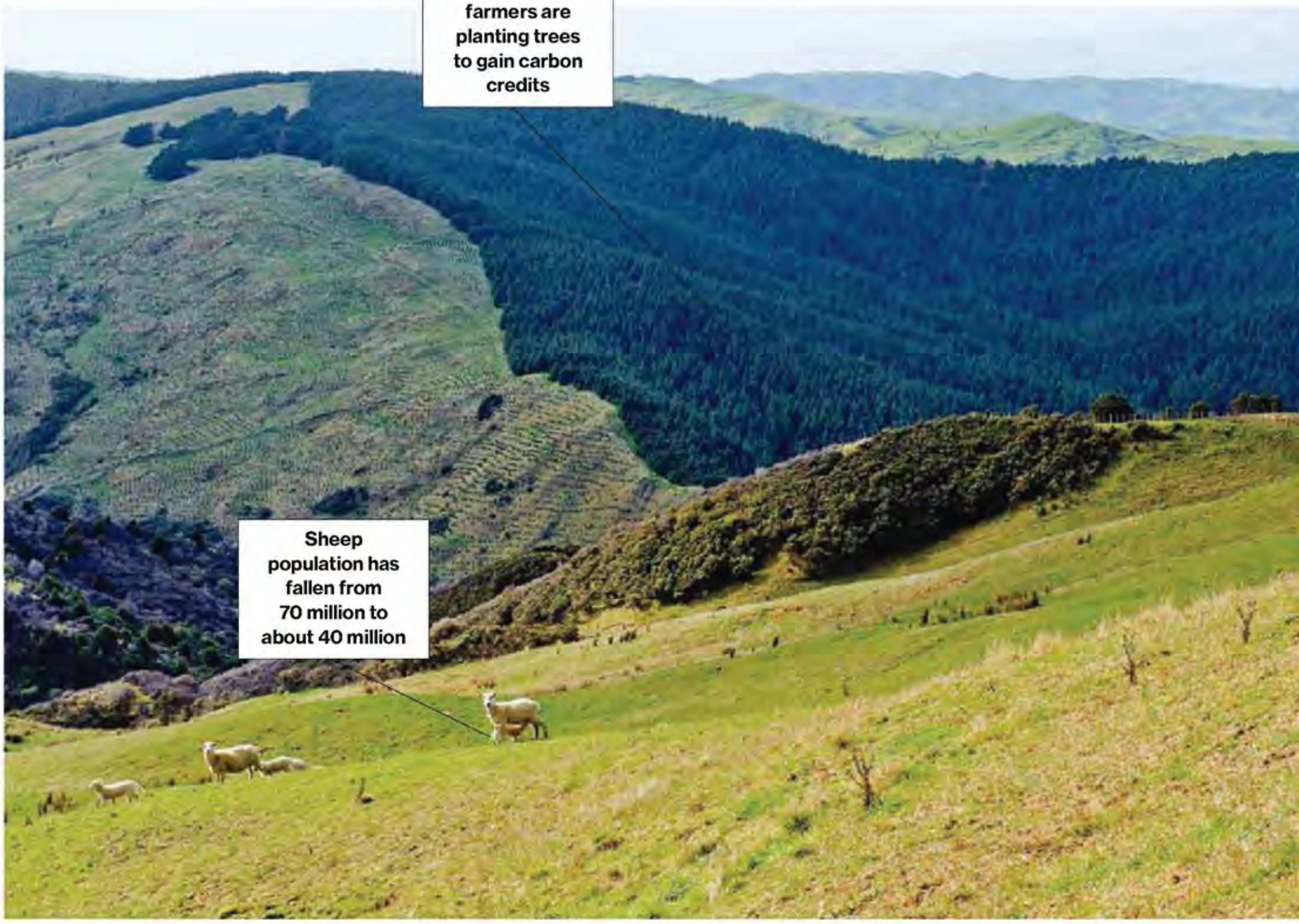
- Growing trees can be more profitable than raising sheep
- "It turns forestry into a cash-flow business," one analyst says

In New Zealand, where the sheep outnumber humans 9 to 1 and National Lamb Day is celebrated every Feb. 15, a carbon emission trading system that kicked off in July is upending the economics of sheep farming, a once crucial sector of the economy. Sheep farmers are walking away from the business of selling wool and lamb chops and are converting their grazing lands into tree farms that could prove valuable when the country's agricultural sector is forced to pay for greenhouse gas emissions starting in 2015.

Home to alpine glaciers, massive mountain ranges, and rolling green farmland, New Zealand would seem the last place on earth with a greenhouse gas problem. (The country actually ranks 51st in such emissions with only 0.2 percent of the world total, according to the U.N.) Yet sheep and other livestock do have carbon foot (or hoof) prints. Sheep emit methane when they belch and nitrous oxide through their waste.

Prime Minister John Key's government in Wellington has said a carbon trading regime probably won't have a big impact on the country's greenhouse gas emissions, yet will boost the country's green credentials and clout in global climate talks. The government's carbon program is also a welcome opportunity for some sheep farmers, struggling against slumping wool prices, drought, and competition for land from the dairy and lumber industries, to diversify, says Neil Walker, a forester in the Taranaki region of New Zealand's North Island.

Although New Zealand was the world's largest sheep meat exporter last year, the number of sheep have fallen from a 1982 peak of 70 million to about 40 million, official data show. New Zealand's carbon trading system requires polluting indus-



tries to buy credits that allow them to emit certain amounts of greenhouse gases, while businesses that reduce emissions can earn credits and sell them to polluters.

Farmers who convert their land from sheep grazing to planting trees could add $172 per acre in value each year to their land holdings, says David Evison, a senior lecturer at the University of Canterbury's New Zealand School of Forestry. Forests planted for carbon credits may increase to 74,000 acres, or about 0.27 percent of all pasture and grass land a year, compared with about 8,650 acres in 2009, the government estimates. "It turns forestry into a cash-flow business," says Evison.

Some New Zealanders aren't convinced carbon farming is a wise move. Communities that rely on the farm economy are losing jobs once held by shearers, mechanics, and veterinarians. Farmers may not understand the risks involved in forestry, says Don Nicolson, president of Federated Farmers of New Zealand. And while the loss of sheep farms is likely permanent, the carbon trading program may only be temporary, and its benefits illusory, Nicolson says.

Nicolson estimates carbon forests could replace 20 percent, or 2,800, sheep and beef farms and put the economy in danger. He says farmers are being sold on carbon trading without understanding that they could lose trees to fire or disease or that the government might cancel the program at any time. "The trouble is, it comes with massive risk, and that's not what's being talked about," says Nicolson.



Sheep farmer Kight is planting more trees on his North Island farm

Edwyn Kight, a farmer on New Zealand's North Island, sees the upside from the shift to forestry. He says carbon farming could improve the profitability of hill country property if converted to tree farms. "That land is not marginally economic for raising sheep and cattle, it's totally uneconomic," Kight says from his nearly 8,900-acre Akitio Station. He's planted about 1,500 acres of forest since carbon trading began and plans almost 2,000 more. —*Stuart Biggs*

The bottom line *New Zealand sheep farmers are converting pasture land to forests, driven by a carbon-trading plan whose benefits some doubt.*

Quoted

"We've tried 19 months of government-as-community-organizer. It hasn't worked."
—U.S. House Republican leader John Boehner on Aug. 24, calling for President Barack Obama to fire his economic team



FROM TOP: MARK COOTE/BLOOMBERG (2); MARK DUNCAN/AP

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Toughbook 52*

Contents
The Halo effect at Microsoft 32 ▸ Salesforce.com channels Facebook 35 ▸ Why Lexmark wants companies to print less 36 ▸ Freescale reboots 36 ▸ Mapping Andreessen's world 37 ▸ Jimmy Lai: The man behind animated news 38 ▸ Edited by James Aley

Technology

The Retailer's Clever Little Helper

▸ A wave of startups is using smartphones to bring e-commerce advantages to real-world stores

▸ "We see upwards of 500 to 1,000 new business inquiries a day"

The battle between online and brick-and-mortar retailers has, until now, been a lopsided fight. Internet stores enjoy the paradigm-busting advantages of the Web, like the ability to personalize deals to shoppers and offer on-the-spot price comparisons. Offline retailers, by contrast, may never know anything about a shopper who walks in, pays for a single item, and walks out the door.

Over the past year tech entrepreneurs have raced to correct this imbalance and extend digital efficiencies to the physical world. Internet services such as **Foursquare**, **Gowalla**, **Booyah**, and—as of Aug. 18—**Facebook** have enticed millions to digitally "check in" to real-world locations. These smartphone-centered services encourage anyone out on the town to open up an app when they enter a venue. By clicking a button, the phone's GPS registers a user's location and sends it out to selected friends. Along with the debatable social benefit of letting people constantly broadcast their whereabouts, the services are designed to give businesses the chance to tailor deals to patrons and forge enduring relationships with the otherwise unidentified folks who may be their best customers.

Until recently, big-box retailers and other mainstream businesses have largely sat on the sidelines as early adopters toyed with the technology. Now that Foursquare and Booyah have each signed up roughly 3 million people and Facebook's 500 million users now have access to similar, location-sensing technology, the big brands are coming around. Says Tristan Walker, vice-president of business development at Foursquare: "We see upwards of 500 to 1,000 new business inquiries a day." Many of those are from mom-and-pop stores, but Foursquare has also recently made deals with major retailers including **Gap**, **Starbucks**, and **Sephora**.

The ratio of people who visit a store and actually buy something is much higher in the real world than online

For retailers, foot traffic is everything, says Cyriac Roeding, the CEO of **Shopkick**, a new service similar to Foursquare. In e-commerce, a small percentage of a website's visitors make a purchase. In physical retail, the proportion of people who walk into a store and actually buy something—known as the conversion rate—is much higher. Roeding says the conversion rate for fashion retailers is 20 percent; in electronics, it's 40 to 60 percent. Shopkick, which launched last week in 600 stores and 100 malls across the U.S., encourages users to visit its retail partners—including **Best Buy**, **American Eagle**, and **Sports Authority**—by rewarding them with gift certificates and other prizes after a certain number of check-ins.

For traditional businesses, one of the advantages of these new services is the ability to reach customers on the go. "We know that consumers are out there at four o'clock in the afternoon with no idea what they're going to have for dinner," says John Faulkner, the director of brand communications for **Campbell Soup**. "If we can communicate with them the way they want to be communicated with, we can get them thinking about our soup." Clay Cowan, vice-president of e-commerce and digital marketing at Sports Authority, says that these services are much more effective at targeting customers than traditional methods: "Rather than accuracy at the quarter mile, it's accuracy at the aisle." ➔

How Foursquare works:



$1	**Starbucks mayors received $1 off frappuccinos in a deal that ran through mid-summer**

*The user with the most visits over the last 60 days becomes mayor. At popular Starbucks locations, it requires more than 20 check-ins to win the title.

Campbell's is working with **Stickybits**, part of another batch of startups distinct from check-in services like Foursquare and Shopkick but still pursuing the same goal of overlaying the Web onto the physical world. For Stickybits and its cohort, the bar code is the crucial ingredient–users don't just check into a store, they check into a product by scanning a UPC with the camera on their smartphones. Users of Stickybits or a competitor like **Barcode Hero** scan bar codes and compare prices, win prizes, or write reviews. Campbell Soup is offering Stickybits users a chance to win a $500 prize by scanning the bar code and posting a photo of one of the company's redesigned soup cans.

These startups acknowledge that scanning soup cans may come across as odd to some consumers. To make the process more appealing, many fill their services with "game mechanics." The term refers to interface and design flourishes–including competition for points and virtual badges–that originated in the gaming world and can make for addictive experiences. Users of Foursquare compete to become the "mayor" of a bar or coffee shop, just as Barcode Hero's users jostle to become the king, queen, or duke of a product category–"the queen of lipstick," for example.

Game mechanics is the concept du jour in Silicon Valley. "You talk to venture capitalists here in the Valley, and they'll tell you that every new startup coming in has game mechanics as part of their pitch," says Rajat Paharia, chief executive of **Bunchball**, a San Jose startup that helps other companies build gamelike features into their websites. "Most of the startups don't know why. They just know that they need game mechanics."

Scvngr, a year-old Cambridge (Mass.) startup that received a $4 million investment from **Google**'s investment arm, Google Ventures, is the most avid of the companies embracing game mechanics. It gives guidance on game design to its partners, including **Sony**, **AT&T Wireless**, and the **New England Patriots**, and helps them devise challenges for customers using a Scvngr smartphone app. At AT&T stores in four Midwest states, for example, customers can earn $50 off the price of a new Samsung smartphone by completing challenges like checking into the store and taking a picture of themselves with the phone.

Facebook's new check-in service, called Facebook Places, may be the best evidence yet that the real world is getting a digital overcoat. With Places, people can check themselves and their Facebook friends into any local business. Those establishments will ultimately have pages on Facebook and be able to communicate directly to their customers. If the service catches on, businesses may know exactly who their customers are, where they are, and in some cases, when they are nearby and ready to spend–just like an e-commerce site. "Once you have the ability to target specific consumers based on what they told you about themselves, you change the entire retail dynamic," says Paul Gunning, chief executive of ad agency Tribal DDB Worldwide. Or, as Shopkick's Roeding puts it: "The real-world click has arrived."
—*Brad Stone and Barrett Sheridan*

The bottom line *Location services like Foursquare and Facebook's Places let real-world stores offer deals and other enticements to nearby shoppers.*

Video Games

The Halo Effect of Microsoft's Halo

▶ **The fourth chapter in its $2 billion series hits stores on Sept. 14**

▶ **Halo is Microsoft's "most important entertainment franchise"**

It's been a while since customers lined up outside stores at midnight to buy a **Microsoft** product. That may change on Sept. 14, when Microsoft releases Halo: Reach, the fourth installment of its blockbuster Xbox video-game series.

Checking In

A sample of the startups building location-based services, and the retailers and brands they're working with.









Scvngr

Brands: AT&T

Scvngr designs smartphone-enabled scavenger hunts that bridge the digital and physical worlds. A current AT&T promotion offers $50 off a Samsung phone for completing certain tasks, like taking a picture with a store display model.

Foursquare

Brands: Starbucks, Sephora, Gap

Foursquare is a check-in service with nearly 3 million users who compete to become the virtual "mayors" of real-world places. In early summer, users had a chance to win a $100 gift certificate at Sephora.

Stickybits

Brands: Pepsi, Campbell Soup

Use the Stickybits smartphone app to scan product bar codes and attach digital information–like reviews or pictures–visible by other users. Scan a Campbell's soup can for a chance to win $500.

Gowalla

Brands: InCase, TOMS Shoes

Gowalla is a check-in service similar to Foursquare, with photo uploads and badges to earn. Check-ins at Apple stores earned users a chance to win an iPhone case in a promotion that ran earlier this year.

Shopkick

Brands: Macy's, Best Buy, American Eagle

The Shopkick app rewards users with gift certificates and discounts when they check in to retail spots and scan products. American Eagle offered a deal on jean leggings in mid-August.

Booyah

Brands: H&M, Pantene

Booyah's MyTown app is a blend between a check-in service and a virtual game, and has over 3 million users. Use the app's bar code scanner on a Pantene product for bonus points to use on virtual goods.



Microsoft's O'Connor, master of the Haloverse

Since the first release of Halo in 2001, the alien-invasion-themed game and its appurtenant books, toys, and apparel, have generated $2 billion in sales for Microsoft. That's not including the Xbox consoles and online game subscriptions the games have helped sell. Microsoft expects Halo: Reach to generate more revenue than the series' biggest seller so far, 2007's Halo 3, which brought in sales of more than $600 million. Operating margins on the games hover around 60 percent, estimates Wedbush Securities analyst Michael Pachter.

Halo's value to Microsoft, which had $16 billion in revenue during the quarter ended June 30, is bigger than its numbers suggest. The Xbox is Microsoft's attempt to stake out a spot in the living room—and Halo is only available on Xbox. "It's the reason people own Xbox 360s instead of PlayStation 3's," says Wedbush's Pachter. Says Bonnie Ross, general manager for Microsoft's Halo business: "Halo is the most important entertainment franchise Microsoft has."

Like past installments, Halo: Reach was created by Bungie, the studio spun off from Microsoft three years ago. (Microsoft retains all rights to the franchise.) This time, gamers get jetpacks and outer-space combat. They play as part of a team of biomechanically enhanced supersoldiers called Spartans trying to save the planet Reach, the only thing standing between Earth and an invading alien alliance called The Covenant. "You've got this eternal theme of humans against impossible odds," says Greg Bear, a science-fiction author hired by Microsoft to write a trilogy of Halo novels. "How is this not *Beowulf* in space?"

Halo: Reach is the last in the series that Bungie will produce; all future Halos will be made in-house at Microsoft. Whether the new game—and any future one—resonates with players depends a lot on Frank O'Connor, a former Bungie employee who stayed at Microsoft after the spinoff. As official guardian of Halo's storyline (his real title is "franchise development director, Halo business") O'Connor makes sure every game and add-on is worthy of the brand. "Franchise fatigue comes when quality drops," says O'Connor, who plays the multiplayer version of Halo online every night, only to get beaten and taunted by teens.

O'Connor guards four top-secret black-and-silver looseleaf binders called the Halo Story Bible. Each contains hundreds of pages laying out the Halo story and universe, including the events to transpire in future games, books, and anything else. When they're not with O'Connor, the binders are stored in a locked metal cabinet in the game studio's offices, which are inaccessible to the rest of Microsoft. Authors working on Halo novels—there have been seven, five of them *New York Times* Best Sellers—are given sections with just the material applicable to their story. Bear, the sci-fi writer, says he received a ring-bound notebook with 10 pounds of color pages, each bearing a code unique to him so that if it ever gets out into the public, Microsoft knows who to go after.

To help guard against franchise fatigue, Microsoft says it's planning to back Halo: Reach with the largest marketing budget it has spent on a game, though it won't disclose how much. Online ads started on Aug. 23, featuring a dramatization of daily life on the planet Reach the day before the alien attacks. TV spots start on Aug. 29 on ESPN and Fox. The game will also be promoted on bottles of Mountain Dew, bags of Doritos, and in 7-Eleven stores. Microsoft will sell a limited edition Xbox console in brushed silver with the logo of the Halo good guys—the U.N. Space Command—on the side.

The company's Halo ambitions extend beyond the traditional young-male gamer demographic. Already, there are older fans of the books who don't play the games at all. Naturally, there are also rumors of a movie. Halo "has a lot of room to grow," says Phil Spencer, vice-president of Microsoft Game Studios. "Microsoft is a scale company. We are not a niche company. We are not about delighting millions of people, we are about delighting hundreds of millions of people."
—*Dina Bass*

***The bottom line** Microsoft is counting on the latest installment in its $2 billion Halo video-game franchise to be another blockbuster.*

Quoted

"Having content associated with the Guggenheim draws in a different kind of demographic than kids crashing their skateboards."

— Bill Niemeyer, senior analyst at Diffusion Group, on how YouTube is benefiting from an exhibit of online videos at Guggenheim museums



FROM TOP: PHOTOGRAPH BY JOHN KEATLEY FOR BLOOMBERG BUSINESSWEEK; COURTESY GAIL COLOMBO

Technology



Why Malaysia rules in Islamic finance page 45 ►

A BBW50 Update

Salesforce.com Channels Facebook

- ► The enterprise software giant has a new social-networking service
- ► "You can see which employees are adding value to your business"

By now it may be one of the most common experiences on the Net. You're on a Web page with a photo of yourself, next to a blank box awaiting the latest update on your activities. Strung below are comments and observations from people you know, near and far.

Facebook or Twitter? Not necessarily. It could be Chatter, a new application being rolled out to customers by San Francisco-based **Salesforce.com**, a fast-growing Bloomberg Businessweek 50 company whose stock has more than doubled over the last year, to about $110 per share. Salesforce.com provides customer-relationship management and other business software as a service over the Internet. Instead of asking "What's on your mind?" or "What's happening?" Chatter poses the question: "What are you working on?"

The company calls Chatter, which like all Salesforce.com software requires only a browser and an Internet connection to access, a "real-time collaboration cloud." Users establish profiles and generate status updates—which might be questions, bits of information or relevant hyperlinks—that are aggregated and broadcast to co-workers in their personal network, whose own comments and updates are then incorporated into a running feed. Workers can follow each other, their customers, and deals in the manner they would on Twitter. Employees can follow colleagues from around the whole company, not just within their own workgroups, which helps knock down some of the silo mentality common in corporations. And profiles can be searched for needed skill sets. (Who knew Wendy in legal was fluent in Portuguese?) A new version due in October will be able to make suggestions about people and accounts users should follow based on their jobs and past activities.

Chatter "makes our core product better," says Marc Benioff, Salesforce.com's voluble chairman and chief executive, who adds that e-mail traffic at Salesforce has fallen 40 percent since his employees started Chattering in June. "You can see which employees are adding value to your business." He says he uses the software to keep an eye on big deals and see which of his support reps are best at squelching problems.

Chatter recognizes that in business, "wide-open is not necessarily a good thing," says Salesforce's Harris



Online social networks have been in the workplace since their beginnings–but more as nuisances than tools to be harnessed. In addition to their productivity-choking ability to suck up employees' time and attention, sites such as Facebook and Twitter are, by the virtue of their very open nature, corporate-security nightmares.

Salesforce.com co-founder Parker Harris, the company's executive vice-president for technology, says Chatter is an attempt to capture and disseminate "watercooler conversation" while at the same time recognizing that in a corporate environment, "wide-open is not necessarily a good thing." Chatter has built-in business-appropriate limitations, such as the ability for management to control access to sensitive records or documents.

The company started rolling out the Chatter application to its 82,000 global customers in June as part of their existing Salesforce service. According to Salesforce.com, as of Aug. 19 about 20,000 companies were using Chatter. Among them are computermaker **Dell**, which has deployed it to some 20,000 workers. Dell says its sales managers use Chatter to track deals. Another customer, advertising agency **Saatchi & Saatchi**, says its employees tend to gravitate toward Chatter first thing in the morning and spend much of their day with it as a way to stay plugged in to the organization.

Chatter is Benioff's "most successful software release, ever"



FROM LEFT: GOH SENG CHONG/BLOOMBERG; LACY ATKINS/SAN FRANCISCO CHRONICLE/CORBIS

For anyone who pays the usual $65- to $125-a-month fee for Salesforce.com, Chatter is included at no extra charge. All other users pay $15 a month. The company won't disclose how much added revenue that comes to. Still, Benioff is pleased with the results so far: On an August conference call with analysts, he called Chatter the company's "most successful software release, ever."

—Rich Jaroslovsky and Aaron Ricadela

The bottom line *Salesforce.com says its new social-networking feature may help customers break down corporate silos.*



Technology

Office Supplies

After a Jam, Lexmark Turns to Services

▶ The printer maker helps others save money by printing less

▶ Pounds of copy paper per worker have declined 26% since 1999



DATA: RISI

After rising for decades, the amount of paper consumed by the average American office worker has declined steadily over the last 10 years, from 143 pounds per year in 1999 to 106 in 2009, according to RISI, a research firm that tracks the forest-products industry. So what's a printer company to do?

If you're Paul Curlander, CEO of **Lexmark International**, the answer is simple: Help big companies print less. Curlander thinks Lexmark's future lies in selling fewer printers with higher profit margins, then earning a steady stream of revenue by managing those printers for the companies that buy them. Lexmark tells its customers that it can bring their printing costs down by 30 percent or more when it takes over the busywork of installing, repairing, and restocking printers.

The strategic shift is part of a necessary overhaul for Lexmark, which became independent in 1991 when it was spun off by **IBM**. The Lexington (Ky.)-based company abandoned the low-margin consumer inkjet printer market in 2007. As Lexmark switched gears, it shut factories in Mexico and consolidated those operations in the Philippines. Sales declined 27 percent, from a 2004 peak of $5.3 billion to $3.9 billion in 2009.

Lexmark's managed print-services division helps companies wring out inefficiencies by raising the worker-to-printer ratio. In most companies, two people share one small printer. It's more cost-efficient if seven people share a larger printer, Curlander says. Placing printers farther away from workers is another cost-cutting tactic because it discourages unnecessary print jobs.

Beverage bottler **Coca-Cola Enterprises** says it saved $11 million over five years with the help of Lexmark, which swapped out 6,000 printers and fax machines from 16 different vendors, for 3,800 new machines, including expensive laser printers, almost all made by Lexmark. The company is now expanding its managed print-services division, and in the last nine months has completed 14 deals with large companies including regional bank **BB&T**, engine manufacturer **Cummins**, pharmacy giant **CVS**, and investment bank **JPMorgan Chase**. In May, Lexmark landed a five-year, $127 million contract to manage office printers for the Social Security Administration.

The company doesn't break out services revenue in its earnings reports. Angela Boyd, an analyst with research firm IDC, estimates that in the first quarter of 2010, Lexmark's printer sales grew roughly five times faster than the market as a whole.

In May, Lexmark paid $280 million for Perceptive Software, a Shawnee (Kan.) company that makes applications to manage and share digital documents. Curlander says the Perceptive acquisition dovetails nicely with Lexmark's strategy to help companies reduce the number of printed pages they generate. "We've always been in the workflow business," he says. "It used to be that all business documents were paper. Now they're digital, and you need software to manage it."

Lexmark is focusing its sales efforts in sectors where print demand is still climbing, such as finance and health care. "We're very narrowly focused on laser printers and on specific industries," Curlander says. "We don't try to be everywhere." That concentration is paying off: Analysts expect Lexmark's revenue to rise to $4.2 billion this year, and shares are up 100 percent over the last 12 months. Says IDC's Boyd: "Lexmark is a company that would rather be quietly growing off in a corner, until one day its competitors wake up and say, 'Holy cow.'" —*Arik Hesseldahl*

The bottom line *Lexmark has abandoned low-margin inkjets in favor of selling more profitable laser printers and managing them for enterprises.*

8.25

Ratio of Hewlett-Packard's $1.6 billion bid to acquire storage-technology maker 3Par to 3Par's annual sales

Semiconductors

Is Freescale Going From RIP to IPO?

▶ The chipmaker wants to go public to help pay off its $8 billion in debt

▶ "There are still a lot of clouds overshadowing the company"

Freescale Semiconductor's chips are found in the guts of everything from cars to Kindles. Yet it's better known these days as an example of private equity's outsized ambitions and the dangers of leverage. Over the last two years, Freescale's chief executive, Rich Beyer, has cut jobs, closed plants, and negotiated with bondholders to lower what was once a $10 billion debt burden. The next step of his turnaround plan is a surprise to many: Beyer wants to join the ranks of **Skype**, **Demand Media**, and **Hulu** and make an initial public offering.

Beyer says the economy will have to improve before Freescale can go public—and bankers say the company is now worth only 85 percent of the $17.6 billion price tag paid by private equity firms **Blackstone**, Carlyle, Permira, and TPG in 2006, at the height of the credit bubble (page 41). And

→ 38

Social Network

The Map of Marc

In the 15 years since Netscape's initial public offering made him rich, Marc Andreessen, 39, has become a ubiquitous Silicon Valley power broker. He's an entrepreneur, he's an investor, he's hunting CEO candidates for Hewlett-Packard. It's hard to keep track. —*Brad Stone*



1996 Time magazine cover, post-Netscape IPO

Entrepreneur

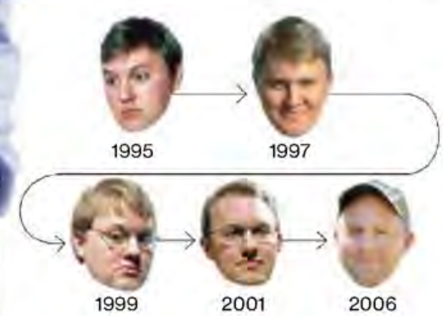
Netscape, née Mosaic Communications, was only his first act. After AOL bought the browser firm in 1998 and then merged with Time Warner, Andreessen departed and has formed a range of companies.

- **Netscape:** Web-browser startup; went public in 1995
- **Opsware:** Network software; bought by HP
- **Ning:** Social network
- **Andreessen Horowitz:** Venture capital firm. (Bloomberg LP is an investor)

Angel Investor

Years before he created his VC firm, Andreessen (who wouldn't comment for this article) was investing in, and mentoring, dozens of startups in all corners of computing.

- **Twitter:** Micro-blogging
- **LinkedIn:** Social network
- **Digg:** Social news site
- **Business Insider:** Blog network
- **Tiny Speck:** Online games
- **Scribd:** Document publishing site
- **Blekko:** Search engine
- **Crowd Fusion:** Online publishing



Venture Capitalist

Andreessen Horowitz, the $300 million investment fund he launched a year ago, has already backed a string of apparent winners. The firm is reportedly raising a second, larger fund.

- **Skype:** Internet calling
- **Zynga:** Social gaming
- **Boku:** Mobile payments
- **Asana:** Business collaboration software
- **Foursquare:** "Check-in" smartphone applications
- **SnapLogic:** Cloud computing
- **GoodData:** Business analytic tools

Board Member

Andreessen is on some of the highest-profile boards in Silicon Valley. That includes the board of HP, which this summer voted to oust its chief executive, Mark Hurd, after an investigation into allegations of sexual harassment.

- **HP:** On executive search committee
- **Skype:** Spun off by eBay with IPO plans
- **eBay:** Helping CEO John Donahoe with a turnaround
- **Facebook:** One of the social network's five directors
- **Kno:** Startup that makes digital textbook readers



Silicon Valley Networker

Ben Horowitz ▶ Partner in VC firm. Longtime associate dating back to Netscape days **Jim Clark** ▶ Chairman of Netscape and early mentor **Peter Thiel** ▶ VC and fellow board member at Facebook; he and Andreessen have money in each other's funds **Pierre Omidyar** ▶ eBay founder and board member **John Doerr** ▶ Kleiner Perkins Caufield & Byers VC and original Netscape investor **Bill Campell** ▶ Famed adviser and "coach" to Silicon Valley execs; board member of Netscape and Opsware **Jim Breyer** ▶ Accel Partners VC and Facebook board member ▶ **Don Graham** Washington Post Co. chief and Facebook board member



MAIN IMAGE: DOUGLAS ADESKO; GETTY IMAGES (2); TIME & LIFE PICTURES/GETTYIMAGES; ASSOCIATED PRESS (2); BLOOMBERG (2)

Technology

while the money raised in an IPO will go toward paying down debt, there's a lot of it left: $7.9 billion. That makes it the most indebted chip company in the world. "It's going to be difficult to find a way out from under their debt burden," says Gregory Fraser, an analyst with Moody's Investors Service. "There are still a lot of clouds overshadowing the company that they have to move away from before investors can be convinced."

Freescale's 2006 buyout was the biggest technology deal of the private-equity boom. Then the financial crisis hit, and Freescale was walloped by a combination of bad news. As a major provider of chips used in the world's automobiles, Freescale suffered as car sales plummeted in 2008 and 2009. Freescale's single largest customer, **Motorola**, hemorrhaged market share in the face of competition from **Apple** and other smartphone makers.

Beyer joined the company in March 2008. (He says the CEO of another chipmaker asked him, "Why would you join such a crappy company?") He closed three factories and slashed the number of design centers around the world from 66 to 23 as sales dropped from $5 billion to $3.5 billion. To convince potential investors that Freescale has bottomed out and is poised for a rebound, Beyer can point to three straight quarters of revenue growth, although the company is still in the red and reported an $18 million operating loss in the most recent quarter.

Beyer, who had boosted sales at chipmaker **Intersil** by 83 percent during his six-year tenure there, is now refocusing Freescale on sectors where he believes the company can be a first- or second-place contender. Freescale's applications processor is the main component in the two best-selling e-readers, **Amazon.com**'s Kindle and **Sony**'s Reader, and Beyer says Freescale chips will be in future versions of the devices. Freescale chips also power **Ford Motor**'s Sync, an advanced in-car entertainment system.

"There was a complacency in the organization," Beyer said. "That is not me. I was a Marine officer. I like to win. We're not a pushover anymore."
—Jason Kelly and Ian King

The bottom line *Freescale, like other high-profile companies such as Skype, Demand Media, and Hulu is considering going public in the next 12 months.*

Innovator
Jimmy Lai





ALEX HOFFORD/EPA/CORBIS

Seen the animated clips of Tiger Woods or the Jet Blue guy? Lai's quick-draw news operation made them—and there's more where those came from

Less than a day after JetBlue flight attendant Steven Slater made headlines with his take-this-job-and-shove-it moment at New York's JFK airport, a computer-animated version of the event appeared online. The video, which quickly garnered 600,000 views on YouTube, was courtesy of Taiwan's Next Media Animation. For about a year, the company–part of Hong Kong publisher Jimmy Lai's empire, New Media–has been turning out computer animations of current events, including celebrity scandals, and local news.

The animated news clip is the latest innovation from the controversial Lai. Born in southern China in 1948, Lai made his fortune as the founder of Giordano, a Gap-like retailer based in Hong Kong. Lai sold his stake in the company in the mid-1990s after his public insults of a Chinese premier jeopardized the company's prospects on the mainland. Lai then built a newspaper and magazine empire in Hong Kong and Taiwan.

Three years ago, Lai decided his news stories needed to be more visual. "Images can transmit information so much faster," he says. He decided to start Next Media Animation (NMA) in Taiwan, a country with a successful video-game industry and a deep pool of animators. Persuading them to join wasn't easy, though. Many told Lai they needed two weeks to produce an animated clip; he wanted it done in two hours. Lai managed to assemble a team that spent months designing ways to speed up and improve the animation process. The company is building a stockpile of digital faces that can be inserted into videos. It's also experimenting with generating street scenes using images from Google Maps and is using a motion-capture camera system to improve animation quality. "The hair has to be softer, the skin has to be more real," Lai says.

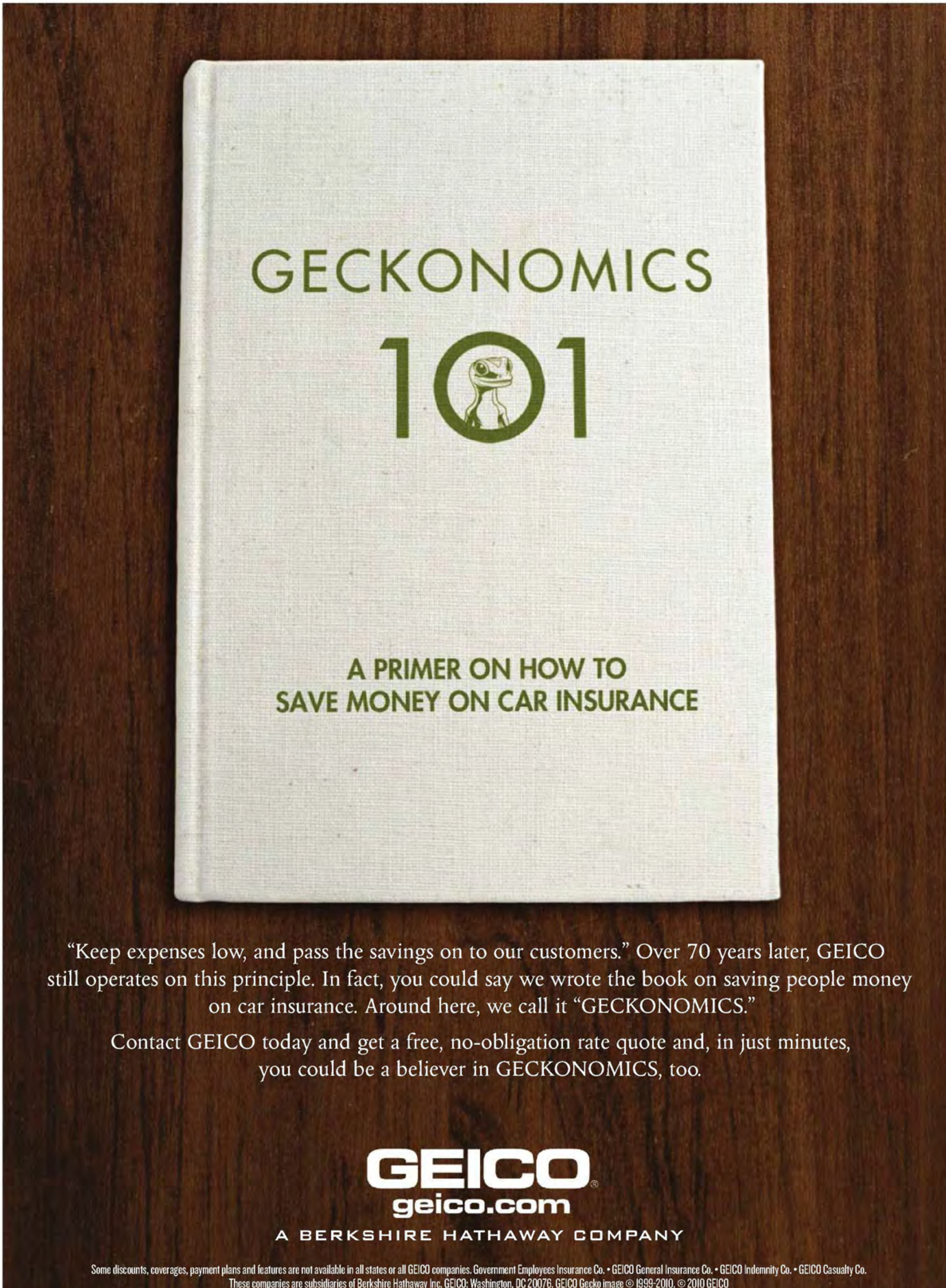
NMA planned to release its first video in early 2010. Then Tiger Woods took his SUV for that notorious late-night drive on Thanksgiving weekend. Lai's team rushed out an animated dramatization of the crash and the subsequent revelation of Woods's affairs. The video got millions of views on YouTube. By now, Lai has invested more than $20 million and has a team of 260-plus animators. The clips have helped to nearly quadruple traffic for the website of Lai's Hong Kong newspaper. Next Media had $210 million in revenue during the six months ended Mar. 10, up 9 percent over the same period in 2009.

NMA has had its share of setbacks. Last year the company had to pay a $31,000 fine after Taiwanese officials found the sex and violence in some of its videos offensive. Taiwan regulators have yet to approve Lai's application to start news and entertainment TV channels. While he awaits their decision, Lai is streaming Next Media's content online, planning TV show-length animations and moving into political satire. He's even hired an actor to impersonate Barack Obama's voice.
—Bruce Einhorn

Breakthrough ▸ **Animated clip of Tiger Woods' notorious Thanksgiving ride**

Prior gig ▸ **Founded Giordano, a Gap-like retailer based in Hong Kong**

Setback ▸ **His company paid a fine for sex and violence in some of its videos**


GECKONOMICS
101
A PRIMER ON HOW TO
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Gatherings: Dealmakers Summit

September 30, 2010

The Morgan Library | New York

The **Bloomberg Dealmakers Summit** is an exclusive gathering of Wall Street's biggest rainmakers in M&A and Private Equity. Join us as we look at deal flow, LBO and IPO activity in 2010, and go behind the scenes to examine the strategies behind some of the biggest deals of the year.

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Tony James
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Alan Schwartz
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Jimmy Lee
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Markets&Finance

Private Equity Finds The Easy Money Gone



FROM LEFT: FIRST DATA; MICHAEL DAMKIER/ALAMY; ED LALLO/BLOOMBERG

▶ Firms are having trouble attracting investors and putting cash to work

▶ Fund-raising "was like a lottery in which every ticket was a winner. That was too good to be true"

Hamilton "Tony" E. James, president of **Blackstone Group**, the world's biggest private equity firm, was in an office park in a Portland (Ore.) suburb last month trying to raise money for a new $13.5 billion buyout fund. Instead of jumping at the opportunity to invest with a premier money manager, members of the Oregon Investment Council, a $52 billion state employees' pension fund, grilled James for almost an hour about the performance of Blackstone's Fund V, launched in 2007. "That all sounds really great, and you probably raised money at the right time so you could go out and get deals," said Katherine J. Durant, one of the council members. "That said, why does Fund V look so bad?"

Durant's skepticism reflects a new era for private equity: A year after the financial crisis subsided, the $2.5 trillion industry is finding that the easy money may be gone for good.

Private equity firms pool money from investors to take over companies, usually with a mix of cash and debt, intending to sell them later for a profit. Buyout activity reached a peak in 2005, 2006, and 2007, when firms completed deals valued at $1.6 trillion.

Many of those deals have disappointed investors, and more than $400 billion that private equity firms raised during the period has not yet been put to work. Pensions, endowments, and mutual funds have cut new commitments to buyout funds by more than half. Overall, private equity funds raised $281 billion last year, 57 percent below the record $646 billion collected in 2007, according to London-based researcher Preqin.

"From 2005 to 2008, firms pumped out profits in 24 hours, buying on Monday and selling on Tuesday," says Antoine Dréan, chairman of **Triago** in Paris, which helps firms raise money. "That made for fund-raising that was like a lottery in which every ticket was a winner. That was too good to be true." Owners now value at least 6 of the 10 biggest deals done during the boom at or below cost, according to public disclosures and communications with investors obtained by Bloomberg. **Energy Future Holdings**, the Dallas-based power producer formerly known as TXU, was the largest buyout in history when it was announced in 2007, with a value of $43.2 billion. At the end of the second quarter, **Kohlberg Kravis Roberts** valued the company at 30¢ on the dollar.

The industry is still recovering from the boom years of 2005-2007, when deals totaled $1.6 trillion

Harrah's, the world's largest casino company, was taken private by **Apollo Global Management** and **TPG Capital** in a $30.7 billion deal completed in January 2008. Apollo valued the investment at 63¢ on the dollar as of June 30, according to an investor presentation. KKR bought electronic payments processor **First Data** in 2007 for $27.5 billion, including assumed debt. KKR is holding the investment at 60¢ on the dollar as of June 30.

Potential investors are reluctant

to commit new money because private equity firms are sitting on an estimated $469 billion in existing capital commitments they haven't been able to invest, according to Preqin. Funds announced $128 billion in private equity deals over the past 12 months, less than a fifth of the $668.5 billion announced in 2007, according to data compiled by Bloomberg. At that pace, it would take more than seven years to invest the existing commitments, assuming funds borrow half the purchase price.

Deals that would allow funds to put money to work faster have fallen apart because investors are wary of overpaying. Blackstone, TPG, and Boston-based **Thomas H. Lee Partners** in May walked away from talks with **Fidelity National Information Services**, a payment services provider, over a $15 billion buyout after the company sought a higher price, say people briefed on the talks.

Blackstone, KKR, and **Carlyle Group**, the largest firms, have responded to today's tougher conditions in part by expanding beyond buyouts. Blackstone, created by Stephen A. Schwarzman and Peter G. Peterson in 1985, has cut its dependence on private equity to about 11 percent of its fee income. The largest unit at the firm by assets now is one that includes funds of hedge funds. KKR is seeking fees from underwriting debt and stock offerings by companies it owns and investing in oil and gas.

Still, stock market investors are wary. Blackstone's stock has declined to 10.43 in New York Stock Exchange trading from an initial public offering price of $31 in 2007. **Fortress Investment Group** has done worse, declining 81 percent since going public in February 2007. KKR, which has slipped 4 percent since listing its shares in New York on July 15, canceled a planned stock sale on Aug. 9. The firm cited "unfavorable market conditions."

Tony James ultimately wrung a $200 million commitment from the Oregon Investment Council for Blackstone's new fund. That was after the firm agreed to share more fee income, a deal it later had to extend to other investors. Blackstone had previously cut the annual management fee for the fund to 1 percent from 1.5 percent for investors with more than $1 billion in commitments.

James says the times when investors accepted fund terms without questioning are over. He recalls how, about a year ago, after the peak of the financial crisis, he and his partners sat down at the company's New York headquarters and agreed that each of them would start calling investors regularly to check in. "We as an industry were lazy," James says. "We were unresponsive to our investors. That world is gone."

—Jason Kelly and Cristina Alesci

The bottom line *Private equity firms are adjusting to life after the buyout boom, in which they are raising, spending, and earning less money.*

.99

PERCENT

The average interest rate on checking, savings, and money maket accounts and certificates of deposit in July, a record low.

DATA: MARKET RATES INSIGHT



Jain helped build Deutsche Bank into a fixed-income powerhouse

Global Banks

A Hurdle for Deutsche's Heir Apparent

- Anshu Jain is in line to be its first non-German-speaking CEO
- "Based on performance, Jain is the crown prince"

The appointment of Anshu Jain as sole head of **Deutsche Bank**'s investment bank last month put him in charge of more than 80 percent of the company's profit and reinforced his position as a front-runner to become chief executive. One catch: He was born in India and doesn't speak German, a potential handicap for an executive who must negotiate the corridors of political power as well as global markets. "Based on performance, Jain is the crown prince," says Lutz Roehmeyer, who helps manage about $15 billion at Landesbank Berlin Investment in the German capital. "But Deutsche Bank has a split personality–a global investment bank being run out of London and a German lender with a very political role. Any successor's key challenge will be bridging these two worlds."

Deutsche Bank's board ducked the issue last year by extending CEO Josef Ackermann's tenure for three years after failing to agree on a replacement. The Swiss-born Ackermann, 62, revived speculation about succession in May when he told shareholders that he's been holding "intensive" talks on the

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topic with supervisory board Chairman Clemens Boersig for months. Jain, Ackermann, and Boersig declined to comment for this article.

Jain, 47, born in Jaipur in Rajasthan state and educated in India and the U.S., joined Deutsche Bank 15 years ago from **Merrill Lynch**. He took over the debt sales and trading division in 2001 and in 2004 was named co-head of the investment bank, with Michael Cohrs, who is retiring this year. Jain helped build Deutsche Bank into a fixed-income powerhouse, more than doubling debt sales and trading revenue between 2000 and 2009. The investment banking division generated 78 percent of the bank's pretax earnings in the first half of this year.

Jain, who lives in West London with his wife and two children, studied economics at Shri Ram College of Commerce at the University of Delhi, earning a bachelor's degree with honors. When he was 20, he followed his now-wife to the U.S., where her family was moving. He enrolled in business school at the University of Massachusetts at Amherst. After earning a master's of finance degree in 1985, he started out as an analyst at Kidder Peabody before moving to Merrill Lynch three years later.

These days Jain, trim and graying, projects the poise and confidence of a seasoned investment banker. His speech, direct and precise, still carries a faint Indian accent. A cricket player and golfer, he's competitive in both work and sport, colleagues say, and relishes opportunities to prove his doubters wrong. He held a stake in the Mumbai Indians, a cricket team, until selling it last year.

The evolution of Deutsche Bank into a global institution runs parallel with Jain's career at the company. Since 1995, the year he joined, the proportion of revenue it derives from Germany has dwindled to 25 percent from almost 70 percent, company reports and presentations show. The slice of income the bank generates from trading quadrupled to 44 percent during the same span.

75%

Portion of Deutsche Bank revenue generated outside Germany

Now Deutsche Bank, with two-thirds of its workforce based outside the country, promotes itself as an international firm: The word "global" appears more than 200 times in its 2009 annual report. On its website the company refers to a "meritocratic tradition and culture." About 54 percent of Deutsche Bank's shareholders are based outside Germany.

Yet it isn't just another global brand. "The special thing about Deutsche Bank is that it carries the name of the country," Ackermann said in a recent television documentary about him. "We're in a sense the representative of Germany around the world." Some investors say that role may lessen Jain's chances to lead the bank. "In many ways, you're not just a banker but also an adviser to the government and industry," says Ulrich Hocker, president of Germany's DSW private shareholders association in Düsseldorf. "I mean, it is called 'Deutsche' Bank, after all. It's impossible to be the Deutsche Bank CEO without speaking German. I'd recommend a crash course."

Jain's main rivals for the job are Chief Risk Officer Hugo Banziger, 54, a Swiss native who helped steer Deutsche Bank through the credit crisis without state aid, and Chief Financial Officer Stefan Krause, 47, who joined from Munich-based carmaker **BMW** in 2008, say two people familiar with the matter who declined to be identified. Banziger and Krause wouldn't comment.

Nine of the country's 30 biggest public companies are led by non-Germans, including two—**SAP** and **Fresenius Medical Care**—that have CEOs who speak little German. Deutsche Bank's management board holds its meetings in English, the company's official language since the $9 billion takeover of New York-based Bankers Trust in 1999.

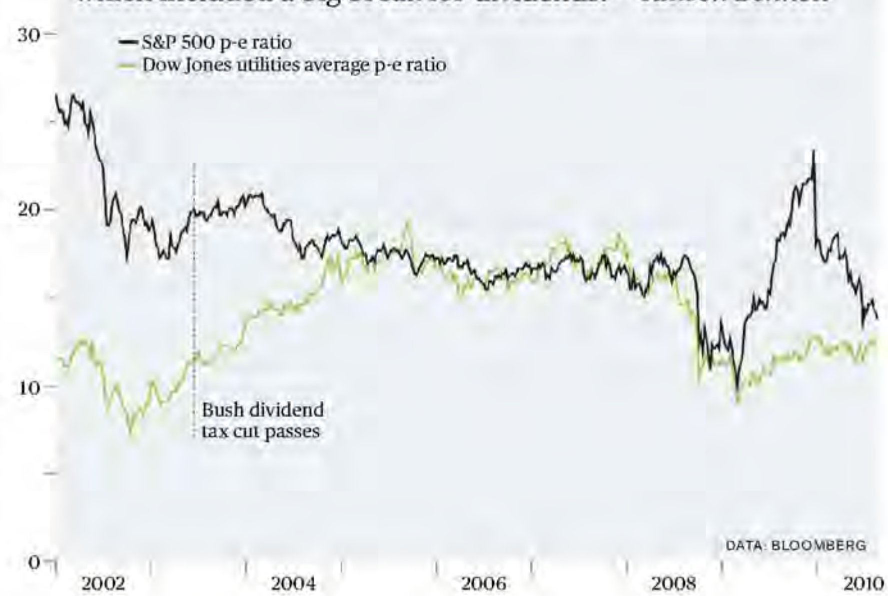
Jain's role running the entire corporate and investment bank, in which he will oversee advisory services and lending to Germany's largest companies, as well as transaction banking, will put him closer to German customers and the politics surrounding Deutsche Bank.

Not offering Jain the top job risks driving out the "best candidate" and disappointing analysts and investors, says Peter Thorne, a London-based

Stock Trends

Utilities Lose Their Juice

Utility stocks, often bought for their dividends, are lagging the broader market as measured by price-earnings ratios. One factor: doubts about the extension of the Bush tax cuts, which included a big break for dividends.—*Allison Bennett*



analyst at Swiss broker Helvea: "If the German powers that be can't see he's the best man for the job, that would be a sad day for Deutsche Bank and the German finance industry as a whole." —*Aaron Kirchfeld and Jacqueline Simmons*

***The bottom line** Deutsche Bank increasingly pitches itself as a global financial institution, but it may not be ready to appoint a non-German-speaking CEO.*

Personal Investing

The Bond Boom Shakes Up the Fund Industry

- It helps Pimco and Vanguard, hurts Fidelity and Janus
- "Retail investors are still shocked by what has happened"

Burned by two market crashes in a decade, investors have shunned stocks for the longest stretch in more than 23 years, upsetting the balance of power in the $10.5 trillion mutual fund industry.

Bond funds attracted more money than their equity counterparts in 30 straight months through June, according to the Investment Company Institute, a Washington-based trade group. Preliminary data show the trend continued in July, matching the streak posted by bonds from 1984 through 1987. Bond funds pulled in $559 billion from January 2008 through June of this year, according to ICI, while investors pulled $209.4 billion from domestic equity funds and $24.4 billion from funds that buy non-U.S. stocks. "Retail investors are still shocked by what has happened in the past two years," James Kennedy, chief executive officer of fund manager **T. Rowe Price**, said in July after releasing second-quarter earnings that fell short of analysts' estimates.

The shift is pressuring asset managers, especially equity-focused firms such as **Janus Capital Group** and **Capital Group**, because bond funds charge investors about 20 percent less in fees. The average stock fund collects 76¢ in fees for every $100 invested, compared with 61¢ for bond funds, according to Denver-based fund research firm Lipper.

Among the big winners are bond specialist **Pimco** and **Vanguard Group**, whose index stock funds have become popular alternatives to actively managed portfolios. Only 1 of the 10 best-selling mutual funds in 2010, the $117 billion Vanguard Total Stock Market Index Fund, invests exclusively in stocks, according to research firm Morningstar. Its success shows that even when investors put money into stocks, they prefer index-based funds over those that are actively managed.

The impact can be seen in return on equity, a measure of profitability, reported by publicly traded asset managers. At T. Rowe Price, ROE fell to 22 percent in the second quarter from 26 percent in the fourth quarter of 2007, the last period before the bond-dominance streak began. At **Franklin Resources**, which manages $603 billion in the Franklin and Templeton funds, among others, ROE declined to 19.5 percent from 26 percent in the second quarter. Equity funds dropped to 41 percent of assets, from 59 percent.

Janus, with 93 percent of its $147 billion in assets in stocks, "has probably been hurt the most," says Jonathan Casteleyn, a New York-based analyst for Susquehanna Financial Group. The Denver-based company earned $61.5 million in the first half of this year, down 27 percent from the same period in 2007. Equity assets fell 28 percent during the 30 months through June as investors pulled $3.9 billion from its stock funds, and the decline in stock prices reduced the value of existing holdings. Janus' return on equity climbed to 12.1 percent in the June quarter from 5.8 percent in the final three months of 2007, when earnings were depressed by a writedown of the value of a printing unit. Spokesman James Aber declined to comment.

The popularity of bond funds plays to the strength of Pimco, whose $1.1 trillion in assets includes just $600 million in stock funds. It attracted $40.2 billion in the first half of 2010, more than any other fund company, according to Morningstar. Pimco Total Return, run by Bill Gross, had deposits of $20.9 billion in the period, the most for an individual fund. The $239 billion portfolio, the world's biggest, returned 5.8 percent in the first half, compared with a loss of 6.4 percent by the average stock fund.

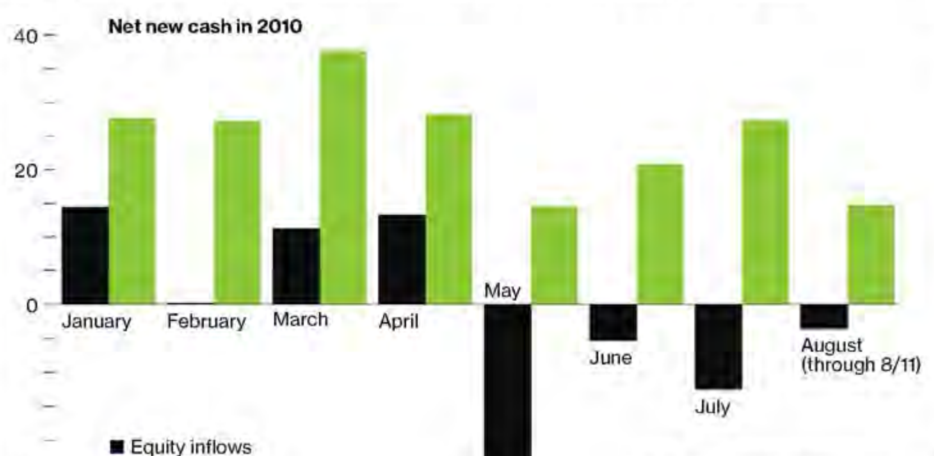
American Funds, part of Los Angeles-based Capital Group, had $48.8 billion in withdrawals from stock funds in the 30 months ended in June, more than any other fund firm, according to Morningstar. **Fidelity Investments** experienced $48.1 billion in withdrawals from its stock funds in the 2½-year period, the second most after American Funds.

Jim Jessee, president of the fund distribution unit of **MFS Investment Management**, says it may take a major market rally to get investors back into stocks. "Unfortunately, my gut tells me the market will need to go up 30 to 50 percent," he says. John Sweeney, an executive vice-president at Fidelity, says hanging back could be costly: "Someone who is waiting for stability is likely to miss out on the upside." —*Charles Stein*

***The bottom line** Investors' preference for bond funds has put pressure on earnings at companies that specialize in stock funds.*

A fondness for fixed income

Mutual fund investors have been shunning stock funds while showering money on bond funds.



DATA: INVESTMENT COMPANY INSTITUTE

AHMAD YUSNI/EPA/CORBIS



Shariah-compliant assets could hit $1.6 trillion by 2012

Credit Markets

Why Malaysia Rules in Islamic Finance

- Kuala Lumpur dominates the market for *sukuk*
- Financial centers in the Gulf should "replicate what Malaysia has done"

Bonds, home mortgages, and other financial assets that comply with Islamic law, which prohibits the charging or paying of interest, have gained in popularity throughout the Muslim world. A lot of high-paying jobs and national prestige are up for grabs for the country that can position itself as the hub of global Islamic finance. Persian Gulf states such as Saudi Arabia, the United Arab Emirates, Qatar, and Bahrain have sought to build out their financial-service sectors to accommodate the expanding demand. However, the real action these days isn't taking place in the Gulf but in Asia—especially in Malaysia's capital city of Kuala Lumpur.

Islamic bonds, or *sukuk*, pay holders a share of the issuer's profits rather than interest. For instance, a *sukuk* holder might have a claim to a portion of toll revenues from a highway project. This year, international borrowers have sold $9.8 billion of Islamic bonds, with 72 percent of that being issued in Malaysia, according to data compiled by Bloomberg.

In the Gulf, $2.5 billion of *sukuk* have been issued so far this year. That's down 24 percent from the comparable period last year and is the slowest pace since 2005. The real estate bust in Dubai and last year's default of *sukuk* issued by **Saad Group**, a Saudi Arabian conglomerate, and Kuwait's **Investment Dar**, an investing firm that owns half of British carmaker **Aston Martin**, have made investors a lot more cautious. They now demand a risk premium on *sukuk* issued by regional borrowers. "The increased risk aversion and wider spreads have made it a relatively expensive time to borrow in the Gulf Arab region," says Khalid Howladar, a Dubai-based senior analyst at credit rating agency **Moody's Investors Service**.

Worldwide, assets that comply with *shariah* (Islamic law), including deposits at Islamic financial institutions, were pegged at $950 billion by Moody's and could grow to $1.6 trillion by 2012, according to the Kuala Lumpur-based **Islamic Financial Services Board** and Jeddah-based **Islamic Development Bank**. To get a piece of that growth, Gulf and Asian governments have launched state-owned Islamic banks. Big global lenders such as **HSBC Holdings**, **Citigroup**, and Singapore's **DBS** are also chasing this business via *sukuk*, *shariah*-approved home mortgages, and exchange-traded funds, among other products.

Both Malaysia, where more than 60 percent of its 28 million people are Muslims, and Indonesia, home to at least 192 million Muslims, have pushed hard to expand their Islamic finance sectors and attract foreign financial firms. Malaysia seems to have the edge at the moment. **Saturna Capital**, the biggest *shariah*-compliant equity fund manager in the U.S., set up a unit in Kuala Lumpur, as did Japan's **Nomura Securities** and India's **Reliance Capital Asset Management**. Malaysia last year introduced an online trading platform for *murabahah* transactions, in which banks and companies buy and sell commodities based on a price that includes an agreed-upon profit margin that complies with *shariah* principles.

These moves have helped Malaysia make big strides in developing a highly liquid and deep bond market that's more attractive to governments and companies interested in raising money than rival Gulf financial centers. "Until some of the Gulf countries can replicate what Malaysia has done in terms of the success of the domestic bond market, I think you'll continue to see volumes of *sukuk* in Asia significantly higher than in the Middle East," says Mohammed Dawood, director of debt capital markets at HSBC. —*Dana El Baltaji and Soraya Permatasari*

The bottom line *Kuala Lumpur has trumped Gulf financial centers and now dominates the global market for Islamic bonds.*

Economic Outlook

A Surge in Commodity Stocks Signals Strength

- Investors in food, chemicals, and metals bet on recovery
- Trading at a premium



DATA: BLOOMBERG, AS OF 8/20

For all the signs of a slowdown in the U.S., investors are snapping up commodity stocks in a bet against a double-dip recession. The 32 mining companies, seed makers, and chemical suppliers in the Standard & Poor's

500 Materials Index rose 10 percent from the end of June to Aug. 20, while the broader S&P 500 index climbed 4 percent. The gains pushed the stock prices of the companies that make up the materials index to an average of 17.4 times annual profits, the highest price-earnings ratio of any industry, data compiled by Bloomberg show.

Premium valuations for companies such as **Dow Chemical** and **Allegheny Technologies** preceded general stock market rallies in the past, as demand for raw materials signaled growth throughout the economy. "If the market really believed the double-dip story ... materials stocks would not be doing this well, that's for certain," says Nicholas P. Sargen, chief investment officer at Fort Washington Investment Advisors in Cincinnati, which manages more than $30 billion.

The Reuters/Jefferies CRB Index of 19 raw materials has gained 3.6 percent since the end of June, led by wheat, which climbed 42 percent as droughts in exporting countries threatened to reduce supplies. Sugar rose 21 percent as delays worsened at ports in Brazil, the world's biggest exporter. Copper and cotton rallied 12 percent, according to data compiled by Bloomberg. More than $165 billion in takeovers of raw materials producers have been announced this year through Aug. 20, the most since 2007, according to Bloomberg.

Strength in commodities is "an important leading indicator," says Bruce McCain, who oversees $25 billion as chief investment strategist at the private banking unit of KeyCorp in Cleveland. "The strength we see in some of those [commodities] is good reassurance there is more underlying economic strength than had been feared."

Not everyone agrees. David Rosenberg, chief economist at Gluskin Sheff + Associates, believes the probability of a second recession in three years is greater than 50 percent. Rosenberg says the surge in commodity stocks reflects growing demand from "the most dynamic part of the global economy right now, which is emerging Asia." That surge, he adds, doesn't necessarily reflect prospects for growth in the U.S. and Europe.
—Kelly Bit and Elizabeth Stanton

***The bottom line** Investors' enthusiasm for commodity stocks may be signaling that the U.S. economy won't fall back into recession.*

Bid & Ask

by Ira Boudway



Collectibles

A Montblanc fountain pen covered in a white-gold web and known as the Magical Black Widow fetched an auction high of **$20,740** at Bonhams in New York on Aug. 19, topping an $18,000 presale low estimate. A hand-painted Krone pen with a piece of the Great Wall of China set in the cap went for $5,795. The event took in a total of $517,780, short of the $650,000 pre-auction estimate.



Theater

The Addams Family, a Broadway musical starring Bebe Neuwirth and Nathan Lane (above), is booming at the box office, with an average ticket price of **$114**. The $16.5 million production opened in April to mostly negative reviews but trails only *The Lion King* ($122) and *Wicked* ($120), two established hits, in average price.

Packaging

Pactiv, the maker of Hefty trash bags, agreed to a **$6 billion** takeover offer from Rank Group. The deal is the biggest yet for Rank's owner and New Zealand's richest man, Graeme Hart, who has amassed a fortune investing in businesses from lumber to dairy. Pactiv makes takeout-food containers, disposable cookware, and garbage cans, pulling in $3.4 billion in sales last year.



Microchips

$7.7bn

Price that Intel, the world's largest microchip maker, agreed to pay for security software company McAfee. The $48 per share cash offer is a 60 percent premium to the price of McAfee shares before the deal was announced. Analysts expect Intel to begin weaving security software directly into its chips in an effort to speed up processing and help crack the mobile-phone chip market.

Government Bonds

Texas sold **$7.8 billion** in one-year bonds on Aug. 24 to pay for schools and help cut an $18 billion deficit. It was the state's largest sale of short-term notes in six years. The notes paid a record low average interest rate of .34 percent, down .1 percentage point from last year's average.

Banking

First Niagara said it will buy NewAlliance for **$1.5 billion**. The deal is the biggest merger of U.S. lenders since October 2008. It adds 88 New England branches to First Niagara's more than 250 in New York and Pennsylvania.

Energy

$9.6bn

Indian state-run energy companies may counter Vedanta's $9.6 billion bid for the oil exploration outfit Cairn India. Vedanta, the mining company controlled by billionaire Anil Agarwal, agreed on Aug. 16 to buy as much as 60 percent of Cairn's India unit to gain access to the country's biggest onshore oil field. According to a source familiar with the matter, India's oil ministry has instructed Oil & Natural Gas to study the possibility of making a counteroffer.

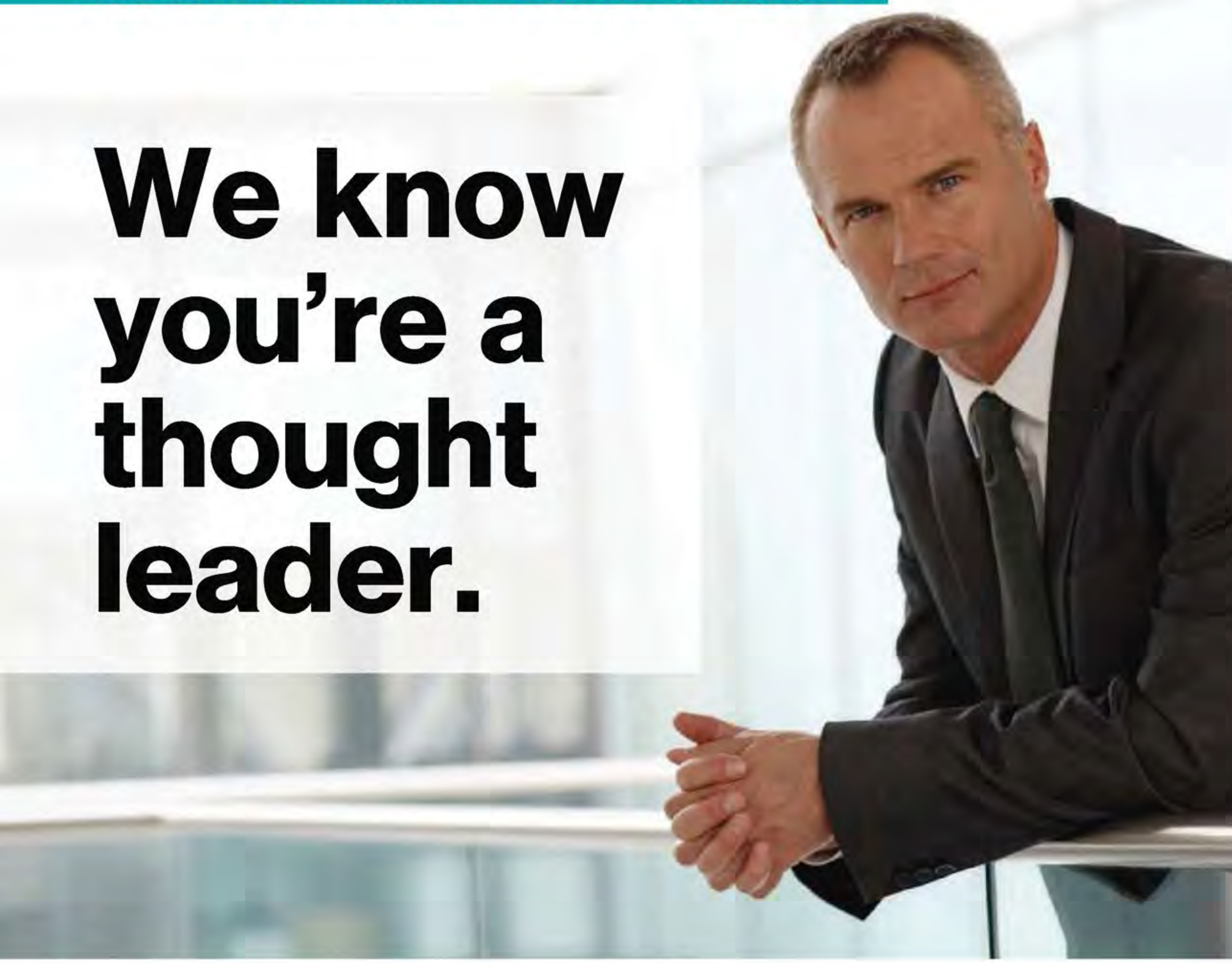


Memorabilia

An anonymous buyer paid **$47,500** for the Dharma Van, a Volkswagen Type 2 used in the production of ABC's hit drama *Lost*. The van topped a two-day auction of 1,100 props and costumes from the series, which ended in May. Profiles in History, the dealer that hosted the event, says sales far exceeded pre-auction estimates.

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Focus On **Enterprise**



Quinn says a partnership with GE could give E-Fuel a big boost

Wanted: Big Ideas From Small Fry

▸ **Giants such as GE and PepsiCo are sponsoring competitions that let startups strut their stuff**

▸ **"It's a different way of thinking about innovation"**

Tom Quinn isn't the kind of entrepreneur who needs help getting his ideas in front of the right people. He's a former president of networking software maker **Novell**, and he invented the motion-controller technology behind **Nintendo**'s Wii while running a company called **Gyration**, where he raised $40 million in venture capital. So why is he pitching his latest idea–a portable system to convert food scraps and other waste into ethanol–on a website frequented by basement tinkerers and dorm-room startups?

Quinn's **E-Fuel** is among more than 1,000 companies, inventors, and students vying for funding in a **General Electric** contest called the ecomagination Challenge. A half-dozen winners will get cash prizes of up to $100,000. More significantly, GE and four venture capital firms plan to invest $200 million in the best clean-technology ideas entered in the contest.

A partnership with GE could give a big boost to E-Fuel, which now has 25 employees and has sold 50 of its biofuel systems. (They retail for $10,000, though a 50 percent federal tax credit can cut the cost in half.) Quinn says GE could manufacture the machines at lower cost and deploy its army of salespeople to get E-Fuel's products to customers worldwide. "I think we'd be a multibillion-dollar company," Quinn says. "And I'm a guy that's created multibillion-dollar companies."

GE's contest is one of at least a dozen similar programs sponsored by corporations casting a wider net for new business ideas, in the process creating opportunities for entrepreneurs. Such contests have "just exploded," says Jay Rao, a professor of innovation at Babson College in Wellesley, Mass. **Cisco Systems**,

PHOTOGRAPHED BY GREGG SEGAL FOR BLOOMBERG BUSINESSWEEK

Enterprise

Netflix, and **PepsiCo** have launched competitions to incorporate outside ideas into their businesses, offering winners cash prizes or partnership opportunities. **Procter & Gamble**, **Starbucks, Dell**, and others have pages on their websites where entrepreneurs or customers are encouraged to suggest new products. P&G says it has licensed more than 1,000 ideas through its open innovation program, including some submitted via its website.

GE is the first to meld an open call for ideas with such a large commitment to invest in outside companies. Anyone is welcome to submit ideas on the ecomagination website, and the public and competitors can scrutinize, comment, and vote on them. After the contest closes in September, GE and its venture capital partners will choose the businesses they want to invest in. Beyond funding, GE may offer entrepreneurs the chance to work with its researchers or to develop or distribute a product jointly. GE aims to commercialize ideas faster than startups could on their own, says Steve Fludder, the executive overseeing the challenge. "We can kind of bolt them onto our $40 billion energy business," he says.

PepsiCo's competition, launched in June, was designed to find digital marketing partners for the company. From more than 500 entries, the food and beverage giant chose 10 social media and mobile marketing startups to work with PepsiCo brands. "It's a whole new way of potentially partnering," says Bonin Bough, PepsiCo's director of social and digital media.

Some entrepreneurs worry about divulging too many secrets or giving up their rights. While GE makes no claim on the intellectual property submitted to its contest, Cisco retained the rights to license technologies entered in its two iPrize competitions, which offered $250,000 for ideas that might lead to new lines of business. "You have to be incredibly careful about what information you put out there and what you don't," says Tim Ellert, one of four partners behind **Wireless Automation Solutions** in Oxford, England. When the company entered its low-cost system for monitoring and controlling home power usage in GE's challenge, Ellert edited his business plan to remove details he won't share without a nondisclosure agreement. Still, he believes his company has benefited from the critiques he has received on the website, and he says that even "if we don't get to the next round, already it's been worth the effort."

Running such contests also scares some executives in corporations more accustomed to keeping their research efforts secret. They fear that working with outsiders could give rivals a sense of what's happening inside their corporate labs, says Marthin De Beer, who oversees Cisco's competition. "A lot of people's hair stands on end inside of these big companies because they immediately think of intellectual property leakage," De Beer says. "It's a different way of thinking about innovation: closed, locked down behind corporate walls, vs. 'Let's open it up to anyone with a great idea.'"
—John Tozzi

The bottom line *Global corporations are finding new ways to scout out business ideas, creating opportunities for entrepreneurs.*

Unsolicited Advice

Martin Varsavsky, serial entrepreneur and angel investor

"Arrogance protects you from the naysayers who will try to put your business idea down. You have to say to yourself, 'I believe in what I am doing.' If you listen to everybody, you wouldn't do your idea, because they would tell you about everything that could go wrong with it. I only gave up on one of my seven companies. I made a big mistake because I didn't trust my own judgment. It's about sticking with your crazy idea until it's worth a lot. You put skin in the game, and you fight hard. Sometimes it's borderline madness."



Varsavsky is the founder of Viatel, Jazztel, Ya.com, and wireless-sharing company FON.

Insurance

Small Companies Skip The Health Tax Credit



- The income threshold makes many of them ineligible
- The health-reform bill "is just not doing what we had hoped"

Sales are off by 20 percent this year at **Image Computer**, which repairs printers in suburban Detroit. So President Steve Olis is worried about whether he can continue paying the $71,000 a year it costs him to provide health insurance for his employees.

The Obama Administration's answer for Olis and other small-business owners: a tax credit of as much as 35 percent of the insurance premiums they pay for employee medical coverage, a signature part of the health-care reform bill signed into law in March. Image Computer, however, doesn't qualify for the credit because Olis pays his 15 employees an average of $55,600 annually, and companies with average salaries above $50,000 aren't eligible. "At some point I can't do this any longer," Olis says of his rising health-care premiums.

Eager to promote the new small-business tax credit, the government this spring mailed 4 million eligible companies postcards with highlights of the program. The response has been tepid, according to insurance brokers who sell small-group policies. The reason, they argue, is that the credit starts to phase out for companies that pay average annual wages of more than $25,000 or employ more than 25 workers. The value of the benefit declines quickly, so many business owners in high-cost states get no tax break, and those elsewhere often say the credit is too small to make much of a difference. Sales of health plans have gotten "very little traction so far," says

THIS PAGE, FROM TOP: ILLUSTRATION BY OLIVER MUNDAY; ILLUSTRATION BY ANDY FRIEDMAN. OPPOSITE PAGE: COLUMBIA TRISTAR/EVERETT COLLECTION

The do's & don'ts of dozing page 84 ▶



Starting a Business

The Hassle Factor Across the Globe

When it comes to launching a new venture, regulations vary from country to country. In its latest annual *Doing Business* report, the World Bank ranks 183 economies. Here are the countries where it's the easiest to start a business–and where it's the toughest.

Easiest

Country	Procedures	Time (*days*)	Fees & Legal Costs (*% of per capita income*)
New Zealand	1	1	0.4
Canada	1	5	0.4
Australia	2	2	0.8
Singapore	3	3	0.7
Georgia	3	3	3.7
Macedonia	4	4	2.5
Belarus	5	6	1.7
United States	6	6	0.7
Ireland	4	13	0.3
Mauritius	5	6	4.1

Hardest

Country	Procedures	Time (*days*)	Fees & Legal Costs (*% of per capita income*)
Cameroon	12	34	121.1
Iraq	11	77	75.9
West Bank and Gaza	11	49	55
Djibouti	11	37	195.1
Equatorial Guinea	20	136	100.4
Guinea	13	41	139.2
Haiti	13	195	227.9
Eritrea	13	84	76.5
Chad	19	75	176.7
Guinea-Bissau	16	213	323

Amendments to Macedonia's labor code have made it easier to use contract workers

New Zealand officials have just 10 minutes to approve certain documents before their supervisors are notified of the delay

In Equatorial Guinea, new businesses must be approved by the Prime Minister

Getting a building permit in Haiti takes an average of more than three years

Note: The Doing Business 2010 *index ranks 183 countries on 10 factors such as the number of permits and other bureaucratic procedures needed to start a business; the time it takes before a company can open its doors; legal costs and fees for obtaining licenses and permits (as a percentage of per capita income); and the minimum capital for starting a business.*

DATA: WORLD BANK GROUP, *DOING BUSINESS 2010*

James Stenger, director of business development for **BenefitMall,** which sells small-group plans in New Jersey.

Stenger says most of his clients pay their workers more than $25,000 a year, so the average tax credit he's seeing for the few who qualify is about 10 percent of the cost of the policy. That's less than $200 per worker–not enough to spur many business owners to start providing coverage. Brokers across the country report a similar response. **JLBG Health** in Warrenville, Ill., contacted 460 small businesses about the tax credit. Roughly 40 percent were eligible, though only seven of those companies qualified for the full benefit. Not one of the 400 New England employers served by Hampstead (N.H.)-based **Landmark Benefits** is eligible, the broker says. The legislation "is just not doing what we had hoped," says Steven Selinsky, the incoming president of the National Association of Health Underwriters.

U.S. Small Business Administration chief Karen Mills says complaints about the tax credit are premature. "This is all still in anecdote land," Mills said in an interview. She maintains that the income cap was needed to keep a lid on the cost of the tax credit and that the people with the greatest need–low-paid workers at the smallest companies–will be able to get coverage. Companies "want to provide health insurance [because] they're losing good employees when they don't," Mills says. "The math says [the program] is likely to be positive."

One company that has had success selling policies under the program is **Blue Cross and Blue Shield of Kansas City**, which launched a marketing push to promote the tax credit when the law was enacted. Although less than a quarter of small businesses in the Kansas City area qualify for the credit, the ad campaign paid off. Blue Cross has sold 227 plans to small businesses in the past three months–80 percent more than in a typical three-month period, says Tom Bowser, chief executive officer. Now, Blue Cross affiliates in other states are hoping to replicate the Kansas City marketing strategy–a combination of print ads, radio spots, and direct mail explaining the program's advantages. The success "is tangible evidence that this legislation is having some effect," Bowser says, "and we're cashing in on it."
—*David Lerman and Liz Smith*

The bottom line *Many small businesses can't take advantage of a tax credit designed to reduce the cost of providing health insurance.*

Advertisement

COMCAST BUSINESS CLASS

LESSONS LEARNED

Lesson 4: Finding Expansion Financing

"I could wallpaper my living room with all the rejection letters I've received from banks," says Duke Moscrip, who with his son, John, owns six Duke's Chowder House restaurants (www.dukeschowderhouse.com) in the Seattle area. Fortunately, he ignored those rejections and kept knocking on doors to find a financing partner who believed in his restaurant concept. Just because one person says no does not mean your business can't be successful, says Moscrip, who persisted and now has a veritable chain of thriving ventures. However, there is a process that can boost your odds of success in securing the funding you need.

Know your business inside and out

Given that landing expansion financing is hard to do, says Healy Jones, a former venture capitalist and current vice president of marketing for OfficeDrop (www.officedrop.com), a digital filing system based in Cambridge, Mass., "make sure you understand your business really well." That means knowing what your costs are near-term, how you'll use the money you raise and how the infusion of cash will impact the company's growth, he says. Additionally, according to Jones, "as you're figuring out how much money you need, you also have to figure out whether this is the last money you'll ever need or the first of many investments."

To make your case, you'll want to prepare a 12-20-page PowerPoint presentation with attached financials, says Jones. A concise presentation is today's version of a massive business plan, which few investors take the time to read.



Identify the right type of investor

After determining how much money your company needs, begin the process of identifying likely sources of capital. If you are after equity funding, you will want to zero in on the particular types of firms most likely to be interested in your industry and size investment. Jones explains that the equity markets are fragmented now, into angels, super angels, micro-VCs, and growth investors rather than the all-encompassing venture capital firm of the past. "One of the most useful online resources for companies looking for angel investments or venture capital investments is VentureHacks (venturehacks.com), he recommends.

"Entrepreneurs are actually excited to provide help and introductions for fellow business owners,"

Connect with fellow entrepreneurs

Once you identify investment firms you want to meet with, use LinkedIn (www.linkedin.com) to find the names of specific people to contact, as well as mutual acquaintances. "Warm introductions are always best," advises Jones. MeetUp (www.meetup.com) is another starting point for finding local small business organizations and networking groups.

"Entrepreneurs are actually excited to provide help and introductions for fellow business owners," says Jones, so go where investors and entrepreneurs gather. By getting involved in the local entrepreneurial ecosystem you will get a feel for who the right potential investors are in your market.

Find an SBA-friendly bank

But not all entrepreneurs are after equity funding. As a former stockbroker, Moscrip has the advantage of knowing how to raise money and has used a number of vehicles to fund his many ventures, from limited partners to personal funds to banks. Today, he believes Small Business Administration (SBA) loans are the dominant source of expansion funding. "It's the best one," he believes.

He advises finding a local bank that routinely provides SBA-backed loans and then identifying an SBA expert within that bank to improve your odds of being able to negotiate a deal. But most important, he says, "be determined, believe in yourself and work hard," and your odds of success rise exponentially.

For more tips on running your small business and how Comcast Business Class can help,visit **www.business.comcast.com**.

Illustration: Peter and Maria Hoey


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Immigration

Why It's Getting Harder To Hire Foreign Workers

▶ Small companies say the U.S. is tightening visa guidelines

▶ "The new rules are ... anti-employer on almost every level"

Maureen Torrey, the 11th-generation owner of a vegetable farm in upstate New York, doesn't have much in common with Atul Jain, the New Delhi-born founder of 14-year-old **Global Software Solutions**, an IT consulting firm outside Washington, D.C. Yet both say they're suffering from an increase in government obstacles to hiring foreigners. "We're in a crisis situation as we see no action by Washington," says Torrey, 58, who recently cut back the land she plants by more than 10 percent, to 6,700 acres.

For years both companies have hired foreigners on temporary visas because they say they can't find Americans with the skills they need. Now they're struggling because it's getting harder to obtain visas for potential employees. **Torrey Farms** has lost money for the past two years because Torrey says she can't bring in enough workers to tend her crops. Jain says sales will be flat this year and he may have to send work overseas. "We let opportunities go, our workforce shrank, and our profit and revenue have gone down," says Jain, 44, who can't find Americans with tech skills and the desire to spend months at far-flung job sites.

Companies had hoped comprehensive immigration reform would make it easier to hire foreigners. In the absence of action by Congress, though, the federal agencies in charge of approving employment visas are making them harder to get, according to immigration lawyers and advocacy groups. The advocates argue that businesses seeking to legally bring in temporary workers from overseas are being hurt by tighter enforcement of regulations by officials who handle visa applications. Robert Groban, an attorney with law firm EpsteinBeckerGreen in New York, says the agencies are under pressure due to worries that "foreign nationals are taking the place of U.S. workers," and are reacting to the political climate. IT consultant Jain's response: "The economy will not improve just because foreign workers can't come."

Small businesses are particularly hard-hit because they lack the resources large companies have for managing visa applications and because it's harder for them to set up foreign operations to take advantage of cheaper labor abroad. "There's a new attitude [that is] arbitrary and capricious at best, hostile at worst" at all visa levels, says Tamar Jacoby, president of advocacy group ImmigrationWorks USA. "If you're running an agricultural operation and these 30 workers are your whole season, it's a big obstacle."

The U.S. Citizenship & Immigration

PHOTOGRAPHED BY HEATHER JOHNSON FOR BLOOMBERG BUSINESSWEEK





Torrey says she can't bring in enough workers to tend her vegetable fields

Service says no crackdown is afoot. "We haven't changed the way that we do our business over the course of the past few years," says agency spokesman Christopher Bentley. Yet government data show H-2B visas, issued to seasonal workers, were down 52 percent last year. H-2As, for agricultural workers, dropped 9 percent. And a June report by the agency's ombudsman said officers last year roughly doubled requests for additional evidence to support applications for H1-B visas (issued to professionals such as computer programmers), which immigration advocates say typically results in delays or denials. The ombudsman's report also noted an increase in complaints by employers regarding the process. The agency declined to comment on the report.

In the past two years the agency has issued at least a half-dozen directives regarding temporary work visas. In January, for instance, it sent a memo to its officers that effectively prohibits tech staffing firms, which provide programmers to corporations, from bringing in foreigners on H-1B visas. In June two trade groups and several IT staffing outfits filed a lawsuit alleging the new policy would destroy their business. Farmers, meanwhile, say recent rule changes on H-2A visas have made it harder to bring in legal workers. In the past three years regulations governing H-2As have changed three times, notes Craig Regelbrugge, government relations chief at the American Nursery & Landscape Assn. He says fees and other costs could double next year. "The new rules," Regelbrugge says, "are fundamentally anti-employer on almost every level." —*Nick Leiber*

The bottom line *The federal agencies that approve visas are making it harder for small companies to hire foreigners, immigration lawyers say.*

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Focus On Enterprise

Stacy Mitchell

Misrepresenting Small Business



The two groups that have traditionally spoken for small business in Washington often push an agenda that only big business could love

For six years, Pennsylvania Governor Ed Rendell has tried to give a tax cut to businesses in his state. And year after year the Democratic governor's proposal has been stymied by a surprising foe: the state's business lobby.

Both the Pennsylvania Chamber of Business & Industry and the state chapter of the National Federation of Independent Business (NFIB) have opposed Rendell's plan to slash the business income-tax rate. Why? The plan would close a loophole that allows certain multistate companies–mainly retail chains and banks–to shield profits earned in Pennsylvania from state taxes. In other words, for the Chamber and NFIB, ensuring that a handful of corporations continue to enjoy a tax break is worth denying thousands of small businesses a tax cut.

The U.S. Chamber of Commerce and the NFIB, together with their state-level affiliates, are among the country's most powerful lobbying forces. While they claim to speak for small business, a look at their lobbying record suggests their primary allegiance lies elsewhere. The U.S. Chamber has fought to preserve offshore tax havens that only multinationals can use, leaving small businesses at a disadvantage. Both the NFIB and affiliates of the Chamber have lobbied in various states to maintain loopholes like Pennsylvania's. And neither group has contested the multimillion-dollar tax breaks cities routinely bestow on big-box retailers to the detriment of their independent rivals.

Although the Chamber says it represents 3 million small businesses, that's misleading. The figure includes members of local and state chambers, which have no say over the national group's activities. The U.S. Chamber's direct membership includes some 300,000 small businesses, or about 1 percent of the total nationwide. While small businesses are prominent in its press releases, they're scarce in its boardroom; the vast majority of the Chamber's 125 board members represent large corporations. "Our policy priorities are closely aligned with our small-business members," and the Chamber has a committee that focuses on them, says Giovanni Coratolo, the Chamber's vice-president for small-business policy.

All 300,000-plus members of the NFIB are small businesses. Yet their politics are out of sync with the broader small-business community. While an American Express poll shows that 32 percent of small-business owners are registered as Democrats and 33 percent are Republicans, 85 percent of the NFIB's campaign contributions went to Republicans in 2008, according to the Center for Responsive Politics. "Our job is to represent our members," says NFIB spokeswoman Stephanie Cathcart. "Do they skew right? Yes, they do. But they are thinking as business owners."

The NFIB's close ties to Republicans may explain its effort to downplay the effect of the credit crisis on small businesses. Ever since President Barack Obama proposed the small-business lending bill now stalled in the Senate, the NFIB has said access to credit is a low priority. An NFIB survey, though, showed that 55 percent of small employers sought loans in 2009, and over half of those couldn't meet all of their borrowing needs. While the NFIB and the Chamber say they don't oppose the lending bill, neither has done much to persuade Congress to vote for it. Compare that with the full-court press both groups waged against the financial reform bill. Small businesses paid dearly for Wall Street's excesses and, as frequent users of credit cards and home equity loans to finance their growth, have much to gain from stronger consumer protections. Yet the U.S. Chamber and NFIB repeatedly cited the interests of small business as a reason to oppose the bill.

Given the disconnect between the lobbying efforts of the Chamber and the NFIB and the interests of those they say they represent, others are starting to speak up for small business. Local chambers in New York, San Antonio, and elsewhere have distanced themselves from the U.S. Chamber. More than 100 independent groups have sprung up in recent years, many of them affiliated with one of several national networks such as the American Independent Business Alliance (where I serve on the board) and the National Small Business Assn. The Chamber and the NFIB "are on a totally different track on almost all of the issues that we care about," says Betsy Burton, a bookstore owner in Salt Lake City who in 2005 co-founded Local First Utah, a group of nearly 3,000 independent businesses.

These groups are carving out their own identity and frequently clash with the Chamber and the NFIB on issues such as tax policy and health care. "If you believe NFIB and the U.S. Chamber, [the health-care reform bill] is all awful," says Scott Hauge, president of Small Business California, a five-year-old network of about 5,000 small businesses. "But there are good things in that bill that will help many small businesses." B

Stacy Mitchell is a researcher with the Institute for Local Self-Reliance, a community development group.

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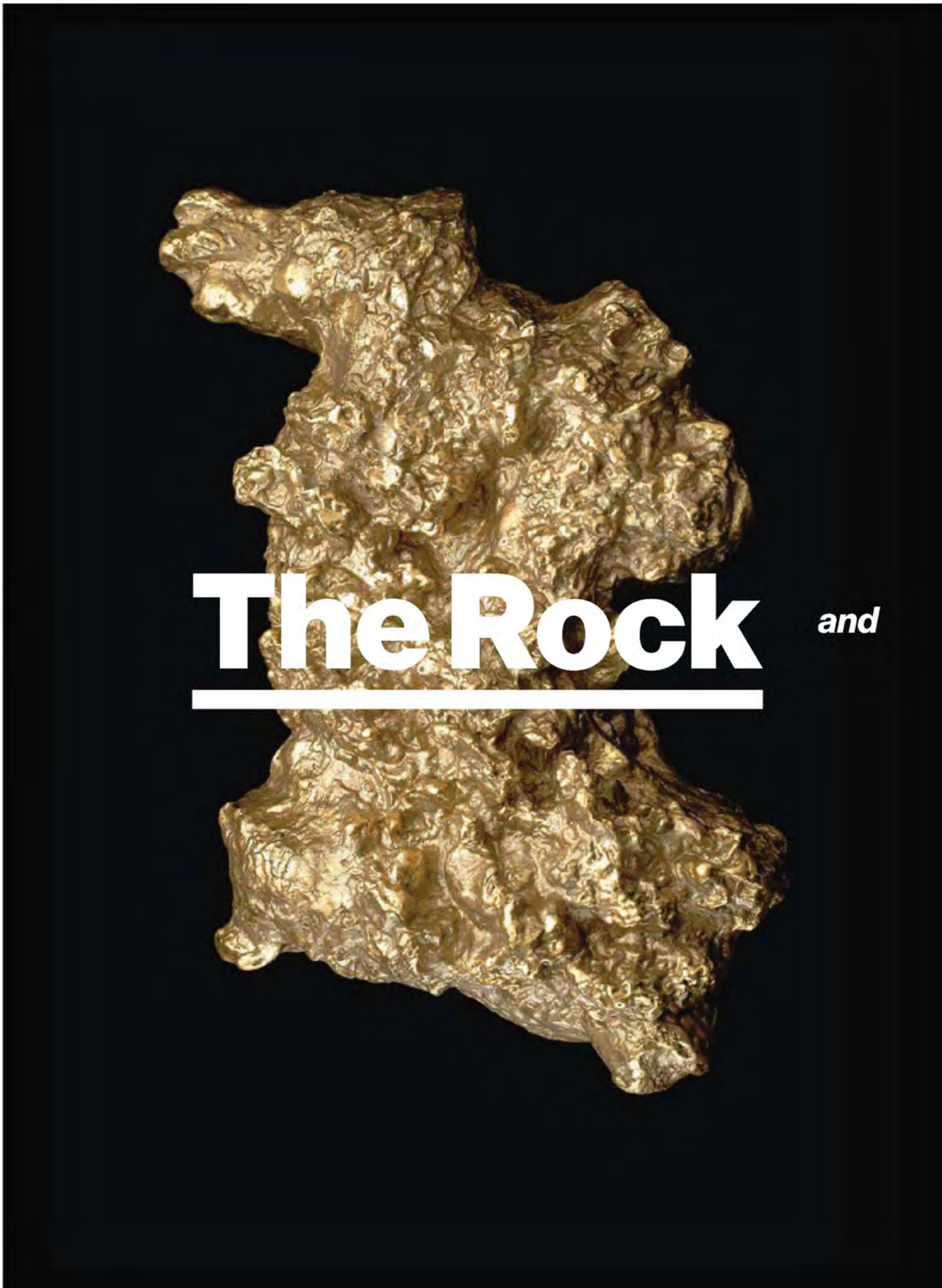
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The Rock and



The Evangelist

As gold becomes a fashionable hedge against turbulent times, one billionaire is doing everything he can to get his hands on the actual stuff

By Jason Kelly

Photograph by Caroll Taveras

Thomas Kaplan at his Manhattan office

"I'm not a goldbug,

but there are times when I feel like an evangelist for it," says Thomas Kaplan, an Oxford-educated historian and chairman of Manhattan-based Tigris Financial Group. "To my amazement, it's a hard sell. The conventional wisdom is that gold is for primitives. That derision shows me that contrary to the notion we're in a bubble, we haven't yet begun the real bull market."

The 47-year-old New York-born billionaire is a bundle of eccentricities, from his unplaceable but alien accent to his three-piece suits and his decidedly un-Wall Street way of talking ("as the thesis is confirmed, well-founded conviction gives way to the calm of metaphysical certitude"). Sitting in a windowless conference room decorated with lavish photographs of panthers, jaguars, and tigers—preserving big-cat habitats is his other major passion—he explains his training as an investor. "I'm much more qualitative than quantitative in my approach," Kaplan says. "It would have been an alien concept for me to think about an MBA."

His conviction about gold puts him in the company of such celebrated figures as George Soros and John Paulson, both of whom have been betting heavily on the yellow metal (and have invested alongside Kaplan in Vancouver-based mining company NovaGold Resources). At the moment, the wager looks inspired: The price of gold has risen for nine straight years, hitting an all-time high of $1,256.30 an ounce on June 21. While the price has fallen about 2 percent since then, Kaplan says the big rally is still to come. It's not riots in the streets he envisions, but a more fundamental case of demand outstripping supply as gold becomes a currency in its own right.

Variations on this view have become so popular in recent years that gold has gone from being an obsession of conspiracy theorists and kooks to a fully respectable investment idea that gets promoted at PTA meetings. Kaplan is not content to merely run with this crowd. To maximize his returns, he has engaged in the much trickier task of digging fresh gold out of the ground. But mining is a double risk—there's the cost, hassle, and uncertainty of extraction, and then there's the volatility of the market. The financial risks of mining show up in their stocks, especially compared with gold prices. While gold rose 13 percent this year, the Bloomberg World Mining Index dropped 9.7 percent. And gold is no more of a certainty than anything else. Before its recent ascent, it was stuck in a bear market for two decades. What if the threat of hyperinflation never materializes? A mere uptick in confidence about global growth could put gold right back in the doldrums.

Kaplan doesn't see that happening, and that's why he has fallen in love with the leafy green hills of Transylvania in central Romania. He owns an 18 percent stake in a Canadian company called Gabriel Resources that is attempting to reopen what is widely believed to be Europe's largest gold deposit, an estimated 10 million ounces, worth more than $12 billion at today's price, as well as 47.7 million ounces of silver. There's one problem: Some residents of the economically ravaged area, where unemployment is 80 percent, are fiercely contesting the project on environmental grounds.

Despite the opposition, the potential windfall has attracted investors, including Paulson, of whom Kaplan is an unabashed admirer. "If he sticks to his conviction on gold, he may yet become the richest man in America," Kaplan says, "and I'd love to see it happen." Kaplan would do well, too, though he brings his own particular dilemma—striking a balance between an urge to expand his mining empire and what he insists is an even greater desire to save the planet from environmental harm.

In 1988, Kaplan was completing his dissertation at Oxford—on the Malayan counterinsurgency and the way commodities influence strategic planning—and earning extra money analyzing Israeli companies listed on U.S. stock exchanges. The work involved traveling to Israel, and while there Kaplan connected with two people who would shape the rest of his life. First was Daphne Recanati, who had attended the same boarding school Kaplan had and was then just beginning her compulsory military service. She would eventually become his wife, mother of his three children—and his "reality check" for new investment ideas. "Her instincts are pretty much perfect," he says.

Through Recanati's mother, Kaplan was introduced to Avi Tiomkin, a well-known Israeli investor with whom he established a close bond. "There was immediate chemistry," says Tiomkin, now 62. "His views, his conviction were impressive." Kaplan sealed his standing with his mentor by predicting the invasion of Kuwait by Saddam Hussein several years before it happened, contradicting widely held wisdom that one Arab country would never attack another. "It was against all forecasts," Tiomkin remembers. "It was a huge surprise."

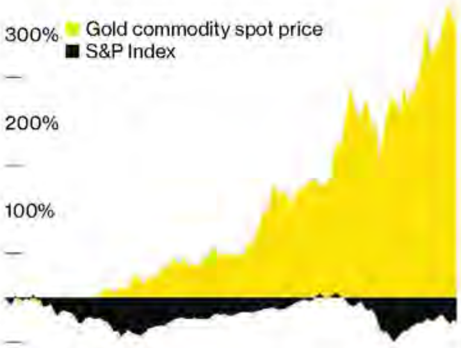
Kaplan commuted between Oxford and Tel Aviv until Recanati was accepted to New York University in 1991, and they moved back to the U.S. Tiomkin hired him as a junior partner, a position he held until 1993, when Tiomkin decided to focus on his Israeli investments and Kaplan left to execute his own big ideas, including major bets on silver, natural gas, and, eventually, gold.

He and Tiomkin kept in close touch. "We could've not seen each other for a few months and then continued the conversation where we left off," says Tiomkin. Like Kaplan, Tiomkin eschews his office most of the time, preferring to work from home or elsewhere. "It's in our genes, it's how we were born. It keeps us away from being too much under the influence of conventional wisdom." The two men have reunited and are now avoiding the same office. After working for various hedge funds including Caxton Associates, Tiomkin joined Tigris

PREVIOUS SPREAD: GOLD NUGGET: COURTESY OF MUSEUM VICTORIA

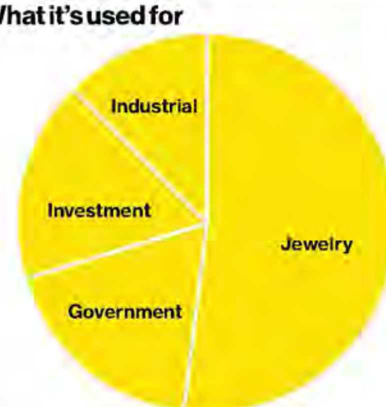
Gold 101

Gold vs. the S&P 2000-2010



DATA: BLOOMBERG

What it's used for



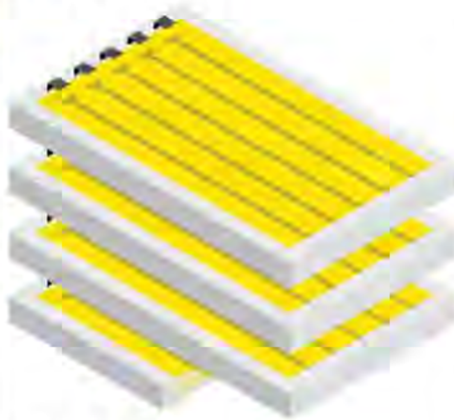
DATA: WORLD GOLD COUNCIL

Which country has the most

Country	Tons of gold
U.S.	8134
Germany	3407
IMF	2967
Italy	2452
France	2435
China	1054
Switzerland	1040
Japan	765
Russia	669
Netherlands	613
India	558
ECB	501

DATA: IMF

How much exists



3.42

Olympic-size swimming pools by volume could be filled if all the gold mined to date were melted

Largest gold deposits (millions of ounces)



DATA: MINEWEB

in 2008 as chief macro strategist, the same year he wrote an article for *Forbes* predicting the "demise of the euro."

Kaplan credits Marc Faber, the notoriously bearish Hong Kong-based publisher of the *Gloom, Boom & Doom Report*, with inspiring his move into natural resources investing in 1993. Faber has long argued that precious metals represent vital protection against the monetary foolishness of central governments. That year marked Kaplan's first defining deal, the launching of Apex Silver Mines to dig for silver in San Cristóbal, Bolivia. Among the early backers of Apex was Soros Fund Management.

With Apex, Kaplan pursued a strategy he is now trying to replicate in Romania: relocating villagers and buildings in the path of his mining plans to a new town nearby. Apex spent $12 million to move about 200 people as well as a cemetery and a colonial church, which was completely restored and rebuilt "brick by brick," Kaplan says. "San Cristóbal was transformed, and we established a foundation to create new, sustainable enterprises. To be from the new San Cristóbal became a badge of prosperity." Kaplan served as chief executive officer of Denver-based Apex and later its chairman. He resigned in 2004, and the company went bankrupt four years later, reemerging from bankruptcy protection in 2009.

Although he's fixated on gold these days, Kaplan hasn't abandoned silver. Through Silver Opportunity Partners, an affiliate of Kaplan's Electrum exploration group of companies, he bought key assets of Sterling Mine Co.—which include the Sunshine Mine, nestled in the heart of the "Silver Valley" of Idaho—out of bankruptcy earlier this year. Well known in mining circles, Kaplan and his team worked hard to keep a low profile leading up to the bankruptcy auction so as not to tip their hand and drive up the bidding. The Sunshine transition team was headed by Mark Wallace, president of Tigris.

Sunshine is among the most notorious mines in the world. First discovered in 1884, Sunshine produced an estimated 360 million ounces of silver. It closed in 2001, then reopened in 2007 before going broke less than a year later. Its checkered history includes a 1972 fire that killed 91 miners, one of the worst disasters of its kind in the U.S. A 12-foot-tall, painted-steel sculpture of a silver miner with a rock drill stands along I-90

between Kellogg and Wallace, Idaho, in memorial to the dead workers.

Now, Silver Opportunity is studying the economic and environmental issues surrounding restarting the mine. Wallace says the deal was a case study for Kaplan's investment approach. "It was no doubt a complicated and risky transaction," Wallace says. "Through our expertise, we were able to minimize the risk involved, resolve litigation, and reunite the patchwork and fractured ownership interests that inhibited the mine and limited its value over the last decade."

While Wallace sorts out the Sunshine mess, Kaplan pursues other interests: In 2006 he created a nonprofit called Panthera to focus on saving big cats. Among its projects is a collaboration with the Wildlife Conservation Society to boost the tiger population in certain countries, including India, Myanmar, and China, by 50 percent over the next decade. After a long and involved courtship, he persuaded Alan Rabinowitz, a zoologist with a specialty in big cats, to become president of Panthera. When he was first approached by Kaplan, Rabinowitz, who had spent his career at WCS, was close to retirement and was torn about taking a new job. Kaplan kept the position open for a full year while Rabinowitz debated whether to accept it. On Apr. 1, 2008, he and five other WCS employees joined Panthera, with ambitious goals. "We have realized that you have to fight for them as a species everywhere they exist on earth," Rabinowitz, now 56, says. To that end, Panthera is negotiating with governments across the globe to create "genetic corridors" so cats can move freely without being constrained by man-made borders. Kaplan and Rabinowitz have developed a deep friendship; they are "BB" and "LB" to each other; Rabinowitz is the big brother, Kaplan the little brother.

Rosia Montana in Romania



"When I met Alan, I realized he'd been doing what I'd wanted to do with my own life," says Kaplan. "Nonetheless, I'd always harbored this dream that I'd be able to return to my true love."

Kaplan acknowledges the paradox of promoting conservation while investing in an industry long associated with extreme environmental degradation, but he says any conflict between the two is easy for him to resolve. "If I'm given a choice between conservation and business, conservation wins, always," he says. "I've conserved a great multiple more than I've disturbed." His geologists apply what he calls the Tom Rule to their decisions about what land to acquire for mining. "If it looks like we shouldn't build a mine here, either take it and I'll hold the land to stop others from building on it, or skip it," he says. "I tell them: 'Use your common and aesthetic sense.' It sounds crazy to refer to aesthetics, but ultimately the morality of the endeavor should win out."

This was on his mind when he arrived in Transylvania in 2009 to get a gut check on Rosia Montana. He had alerted no one there about his visit, flying into the tiny Romanian city of Saibu with several colleagues from Tigris' London office and enduring a three-hour drive through the mountains. They explored the back roads around the mine, witnessing a degree of ecological damage that left Kaplan to theorize that the pollution dated to the time when the Roman Emperor Trajan conquered the region, marking the beginning of Rosia Montana's mining heritage.

Community and environmental activists have been fighting Gabriel Resources' plans for a decade, arguing that the use of cyanide in the mine threatens nearby villages and that a spill could contaminate the countryside extending into neighboring Hungary, where officials have joined the opposition. Kaplan counters that the area already has been devastated by centuries of mining—"the river literally runs red from sulfides"—and that digging the mine would in fact help the county of Alba by repairing some of the damage of past mining projects.

Leading the resistance to the mine is a nongovernmental organization called Alburnus Maior, which was started in 2000 and is based at Rosia Montana. The group contends that Gabriel's plans will destroy historical sites and force resettlement of 740 farms and 140 apartments. The group also says that 40 Romanian NGOs and institutions support its "Save Rosia Montana" campaign, which proposes to boost the local economy through tourism, agribusiness, and small industries, including crafts. "We will continue to use all legal means at our disposal to stop this proposal from ever being realized," Alburnus Maior's Stephanie Roth said in an e-mail. Roth, a former environmental journalist, was instrumental in persuading the European Parliament to publicly oppose the mine. She said the fact that some residents will ultimately refuse to sell their properties to Gabriel means the mine won't ever get under way because the company needs all of the land to secure a construction permit. "I don't think that Gabriel's project will ever go ahead, and in contrast to Gabriel, the locals have all the time in the world," Roth said.

Rozalia Drumus, a 79-year-old retired schoolteacher, lives in Rosia Montana with her unemployed daughter and subsists on a 1,159 lei ($337) monthly pension. She has planted a sign on her gate: This property is NOT for sale. "We had a small happy village, but people's greed for money was too much," she says. "Gold is a bastard."

Kaplan ardently defends Gabriel's efforts, arguing that mining is the best way to help the economy of Romania. "Those who say a scarred landscape should be preserved at the expense of a truly exciting economic future for a poor community are being unjust," he says. "This is telling the local people to bootstrap their way to progress when they don't have the means to procure boots."

In June, Romania's environment minister said the government probably will resume a review of the project, which likely means months more of public debate. Even if Romanian government approval is obtained, it will take at least a year before gold can be pulled out of the ground. Meanwhile, as gold prices swing wildly and talk of a double-dip recession ripples across the markets, Kaplan retains his karmic calm. "People view gold as emotional, but when they demythologize it, when they look at it for what it is and the opportunity it represents, they're going to say, 'We really should own some of that.' The question will then change to 'Where do we get the gold?'" B

—With Irina Savu in Bucharest

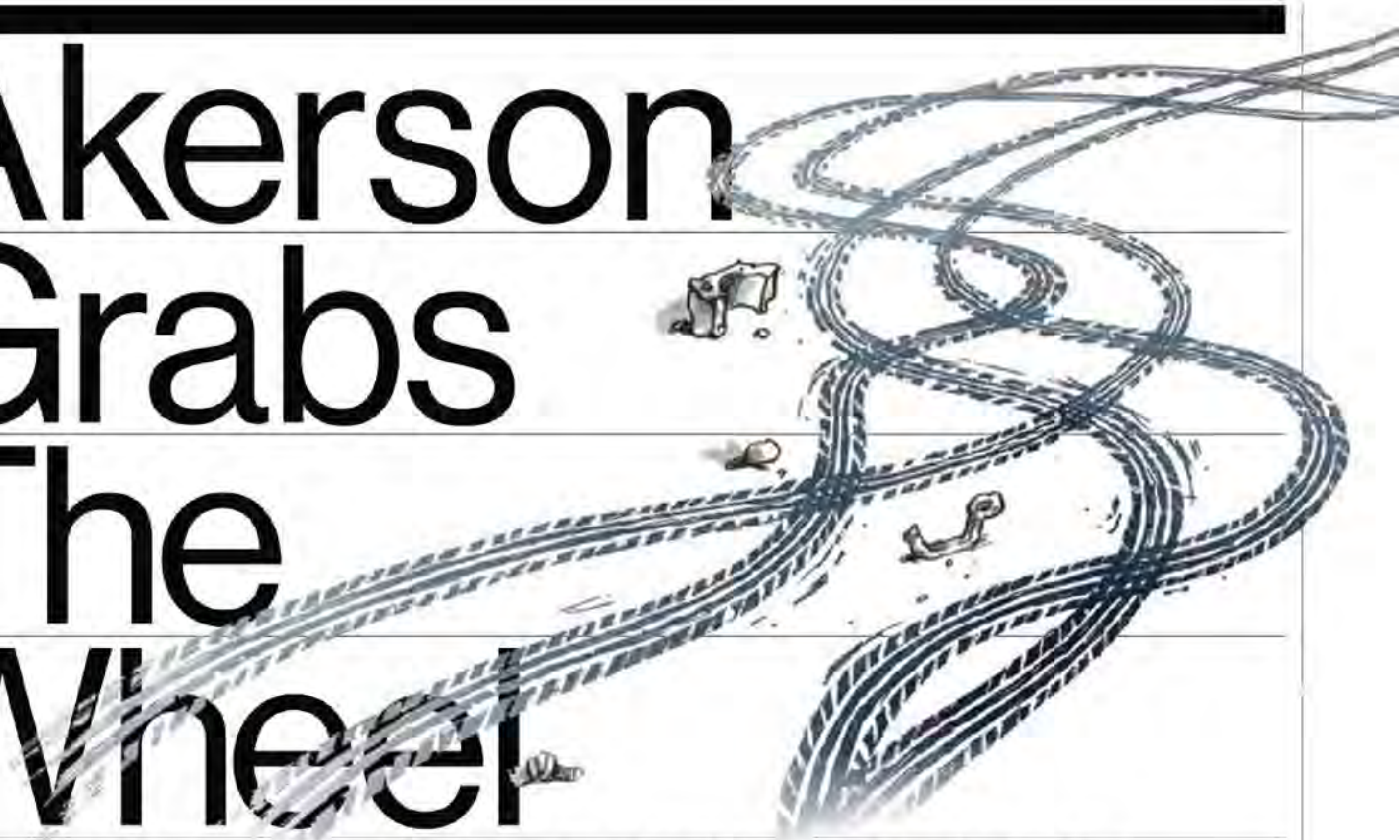
MARIUS ROSCA



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Akerson Grabs The Wheel



At General Motors, the Ed Whitacre era lasted all of eight months. Hastily replacing him as CEO—on the eve of the company's IPO—is another tough telecom guy, former Nextel boss Daniel Akerson. What makes him the man for the job? By David Welch

For the directors of General Motors, this should have been a summer to savor. The carmaker has been preparing an initial public offering expected to sell up to $16 billion worth of stock, an impressive sum for an enterprise that was close to dead–filing for bankruptcy protection in June 2009, ceding majority ownership to the U.S. government, cutting 60,000 jobs since 2007, and shedding tens of billions in debt. When GM emerged from Chapter 11 in July 2009, it toughened up its board, replacing most directors and adding private equity star David Bonderman, a founding partner of TPG Capital, as well as three members chosen by the U.S. Treasury's Auto Task Force as possible chief executive officers: former telecom CEOs Edward E. Whitacre Jr. (AT&T), Patricia Russo (Alcatel-Lucent), and Daniel F. Akerson (Nextel), who in recent years had run the largest private equity fund at the Carlyle Group. In December the new board set about remaking GM management, ousting CEO Fritz Henderson and installing Whitacre, who'd been chairman. He soon chalked up two successive quarters of profitability, a sign GM had regained the stability it needed to return to the public markets.

Then the triumphant summer turned weird. In June and July, investment bankers preparing for GM's IPO road show asked Whitacre the question every institutional investor would want to know: How long did he plan to stay on as CEO? Whitacre didn't answer, and some of GM's directors became concerned. Those who knew him best suspected the 68-year-old Texan, impatient with federal oversight, wanted to leave by yearend–a timetable that wouldn't work at a company going public. Before GM's Aug. 2 board meeting, Whitacre's attorneys told him he would have to disclose his plans in the IPO filing. At the meeting, board members wanted a decision–either stay into next year, they said, or leave now, according to three people with direct knowledge of the talks. To the surprise and irritation of some directors, Whitacre bowed out.

That plunged the board into a leadership crisis at the worst possible moment. Just seven months before, the directors had given Whitacre the job after a search turned up few qualified outsiders willing to accept federally imposed pay constraints. (Whitacre earned a base salary of $1.7 million.) Now several directors suggested launching a new search, but the majority rejected the idea–it would be time-consuming and possibly fruitless, it would disrupt continuity, and it would blow up the autumn IPO schedule. Instead, the discussion soon turned to another of those tough new board members: Dan Akerson, 61, who was already certified as CEO-worthy by the Treasury Dept. and fully immersed in the company's issues. At first the idea gave him pause, say two people with knowledge of the conversation, because it meant moving from his Washington (D.C.) home to Detroit. Within three days, however, he had agreed.

ILLUSTRATION BY DAVID PARKINS



What did the GM board get by promoting another insider? Akerson may have been the board's only option, yet he is not an obvious choice to run GM. Like Whitacre before him, Akerson has never run a heavy-industrial company, let alone one with GM's global reach. "It's a revolving-door CEO," says Charles M. Elson, chairman of the John L. Weinberg Center for Corporate Governance at the University of Delaware. "The job keeps going to people who have no industrial experience." Telecom experts commend Akerson for his turns as president and chief operating officer of MCI in the early '90s, and as CEO of Nextel in the '90s. He turned two upstarts into major players. Nextel never made money on his watch, though that was common in that rapidly expanding, capital-intensive sector. He later had a hand in two debt-laden ventures that went bust, XO Communications and Hawaii Telecom. "He tends to think big," says former telecom analyst Jack B. Grubman, now an adviser with Magee Group, a New York-based consulting firm. "He is definitely a growth guy. He can also be stubborn to a fault."

Akerson, who declined to be interviewed for this article, has promised to continue Whitacre's cultural overhaul of GM, pushing for simplified management and more accountability. Yet those who know him say his style will be very different. Where Whitacre did little talking but eased out or reassigned two dozen managers who didn't perform, Akerson is more directly confrontational. "He'll be different than me," Whitacre says. "I think he will listen. You can't be successful and not listen."

From the time he joined the board in July 2009, Akerson clashed with GM management, pushing executives to defend even the most basic strategies. During one board meeting shortly after Akerson and Bonderman became directors, they questioned why GM was spending more than $1 billion on a new engine program, asking Henderson and others if they had a plan to show a return on the investment. Henderson explained that the four-cylinder engine would be used in several small cars sold around the world, say three people with knowledge of the discussion. Since GM charges a price for the whole car and not the engine, the company didn't calculate a rate of return on the engines. It tracked costs and tried to keep them low.

The private equity guys kept pressing. Why, they asked, couldn't GM simply buy the four-cylinder engine from someone else? The car guys explained that the engine is the heart of the automobile. GM couldn't stake its reputation on another company's power plant—if it performed poorly, they'd be stuck. Plus, GM couldn't possibly outsource the 750,000 four-cylinder motors it needed to build in a year. It takes three factories to produce that kind of volume. After forcing the car guys to get far more detailed about their cost figures, Akerson came around and began coaching Henderson on how to pitch the engine as an "operational necessity." The board finally approved it. A GM spokesman points out that it is the board's job to ask tough questions and says the debate didn't cause delays.

Akerson's style is one reason the Treasury Dept.'s Auto Task Force invited him to join the board in the first place, says Harry Wilson, a former Task Force member who is now running as a Republican for New York State comptroller. Task force chief Steve Rattner, who knew Akerson from doing private equity work in the telecom business, brought up his name, Wilson says. Rattner and Whitacre figured that an undisciplined company like GM could use a hard-liner. The original idea was to have Akerson act as a vice-chairman, working alongside Henderson and Whitacre. "GM's problems are cultural," Wilson says. "There was a lack of urgency and a lack of focus on customers and shareholder value. We wanted some private equity guys who have a focus on the shareholder. Dan is smart, thoughtful, and hard-charging."

Akerson also has some car experience. During his years at Carlyle in the late 2000s, he had a hand in four auto industry deals. The firm tripled its investment in parts firm AxleTech International. Carlyle's investment in Hertz Rent-a-Car is still a work in progress; the rental agency has lost $175 million this year and the stock is off 25 percent, but Carlyle has recouped its equity in the deal. Carlyle is in the process of selling United Components, an aftermarket parts maker, and owns Allison Transmission.

At GM, Whitacre is handing Akerson a company with many problems fixed and some momentum in the marketplace. GM has a healthy balance sheet. Its $15 billion in debt and preferred stock obligations is less than half of rival Ford Motor's. Global sales are growing at 17 percent, and profits topped $2.4 billion in the first half of 2010. Even its once-moribund Buick division is showing signs of life: U.S. sales have soared 60 percent, to 87,000 through July. With the IPO on the way, the government's 61 percent stake will soon be reduced to a minority position.

Credit for all that goes to Henderson and Whitacre, the fix-it guys. Akerson's assignment is long-term transformation. The board wants him to build a nimble, high-performance culture and groom the next CEO; GM's board expects him to stay on for three to five years, according to people with knowledge of the board's plan. Sooner or later, he'll be expected to cede the stage to a new leader, perhaps one drawn from the senior managers Whitacre put in place: Vice-Chairman and CFO Chris Liddell, the former CFO of Microsoft, hired in January; and North American President Mark L. Reuss, a GM lifer and to-the-bone car buff. Liddell, a New Zealander known for his financial acumen, has not been tested as the leader of a company of this size. (GM still has 208,000 employees worldwide.) Neither has Reuss, who must prove he can run GM by keeping its once-troubled U.S. business in the black. It's too early to tell if either man is fit to be the next CEO. Up-and-comers inside the company and promising outsiders will also be considered. "You have to build a deeper bench," Whitacre says, "pretty much across the board."

It's Akerson's good fortune that Whitacre and past managers have established a strong product plan for the next few years. GM has a new Chevy Cruze compact coming later in 2010 and a new Malibu next year. Buick will also get a couple of smaller cars to boost sales volume. Before announcing his departure, Whitacre ordered up a big, boldly styled rear-wheel-drive flagship sedan for Cadillac, expected in 2014; GM hopes it will elevate the brand and even compete with the Mercedes S-Class and BMW 7 Series. New pickup trucks should arrive in three years. GM spends about $6 billion per year to develop new models,

Where Whitacre did little talking,
Akerson will be more confrontational.
"He'll be different than me,"
says Whitacre. "I think he will listen.
You can't be successful and not listen"

according to its IPO prospectus. That's 33 percent more than Ford. Whitacre says he has already set product spending budgets for the next several years. They're going up.

"Out of Central Casting"

Akerson was born in California and grew up in Minnesota. His father was an Army man, and Akerson attended the U.S. Naval Academy, graduating in 1970 and spending five years on a destroyer before leaving for a job at Phillips Petroleum. He found his calling at AT&T in 1979, where his military background fit well with the starchy corporate culture. He entered the management training program straightaway—and shocked co-workers four years later by leaving for upstart MCI, says Grubman, who worked with him at AT&T. "Dan was out of central casting for an executive job at AT&T," he says. "We had not pegged him as someone who would go to MCI. I think it was clear to him that he could rise faster at MCI. He was right."

Within nine years, Akerson had become president and chief operating officer. He showed genuine marketing chops, rolling out a popular "Friends and Family" plan that gave subscribers lower rates for calls to a select group. He helped transform MCI from a small discount long-distance carrier to a full-line provider, Grubman says, and also expanded the company's business services. By the time he left, MCI was a legitimate competitor to AT&T. "Dan transformed MCI," Grubman says. "He cemented his legacy at the company. After that, his results were mixed."

In 1993, leveraged buyout firm Forstmann Little lured him away to run General Instrument, the set-top box maker. Firm owner Theodore J. Forstmann eased then-CEO Donald Rumsfeld aside for Akerson, who helped get the company ready for a sale. He was lured away in 1996, when McCaw Cellular founder Craig McCaw recruited him to run Nextel.

Akerson borrowed heavily to expand Nextel's network and increased sales from $332 million to $7.7 billion between 1996 and 2001. He made the most of a walkie-talkie technology called Direct Connect, which allowed several users to conference simultaneously. The company lost money during those years, which were spent laying fiber-optic cable and marketing relentlessly, but turned profitable soon after. His gamble paid off in 2004, after Akerson had left Nextel, when Sprint bought the company for $35 billion. After his turns at MCI and Nextel, says James A. Attwood Jr., who later worked with Akerson at Carlyle, "Dan was regarded as the best executive in telecom."

Then his good fortune turned. In 1999, McCaw tapped him to become CEO of Nextlink, which provided voice and information technology systems to businesses and soon changed its name to XO Communications. At XO, Akerson tried to make another growth play. The company was expanding its network rapidly, and Akerson decided to fund it with debt. The company's bankers suggested a safer method: equity instead of debt. Akerson refused. XO's stock price had just dipped below $40 after reaching a high of $66; Akerson said he would be selling the stock too cheaply, Grubman recalls. The share price never recovered, and the debt load became too heavy. A GM spokesman says Akerson took XO over when it was losing money and returned it to positive cash flow. But after the credit markets froze up in 2002, the company filed for bankruptcy protection. Investor Carl Icahn acquired the firm after buying its debt in bankruptcy. Akerson "can be combative and very harsh," says Stephen Winningham, a former banker for XO who is now managing director of the major corporate group at Lloyds Banking Group in London. "Those same characteristics make him decisive and will benefit GM."

XO wasn't Akerson's last misstep. In 2003, he became a managing director at Carlyle Group, where he ran a fund that two years later acquired Hawaii Telecom from Verizon for $1.6 billion—a deal brought to him by fellow managing director Attwood and former Federal Communications Commission director William E. Kennard. Hawaii Telecom was a landline phone service provider with no mobile service in a state that was rapidly going cellular, says Attwood. The company also had serious technology problems. As people switched to mobile phones, Hawaii Telecom lost more than 100,000 of its 700,000 customers, Attwood says. Eventually, it ended up in bankruptcy. "We thought we could run it better," Attwood says. "We thought we knew the business. It was a fundamentally flawed thesis."

A Devil's Advocate

Those who work with Akerson say that when debating business plans and strategy, he doesn't demonstrate an interest in being liked, which makes him an effective devil's advocate. Late last year, the GM board was reviewing a GM ad campaign that promoted its fuel economy in comparison to Honda and Toyota models. Akerson asked the marketing executives why the ads placed so much emphasis on fuel economy. "Nobody cares about fuel economy," one executive recalls him saying. "When it's empty, you fill it up." GM executives patiently explained that the company's image had taken a beating for selling inefficient trucks and SUVs. Two others in the meeting say Akerson's tough line of questioning was his way of pushing GM's managers on whether fuel economy was really the best point of differentiation for the company's cars. He thought overall quality was a stronger selling point, and GM later began using that pitch with its "May the Best Car Win" campaign.

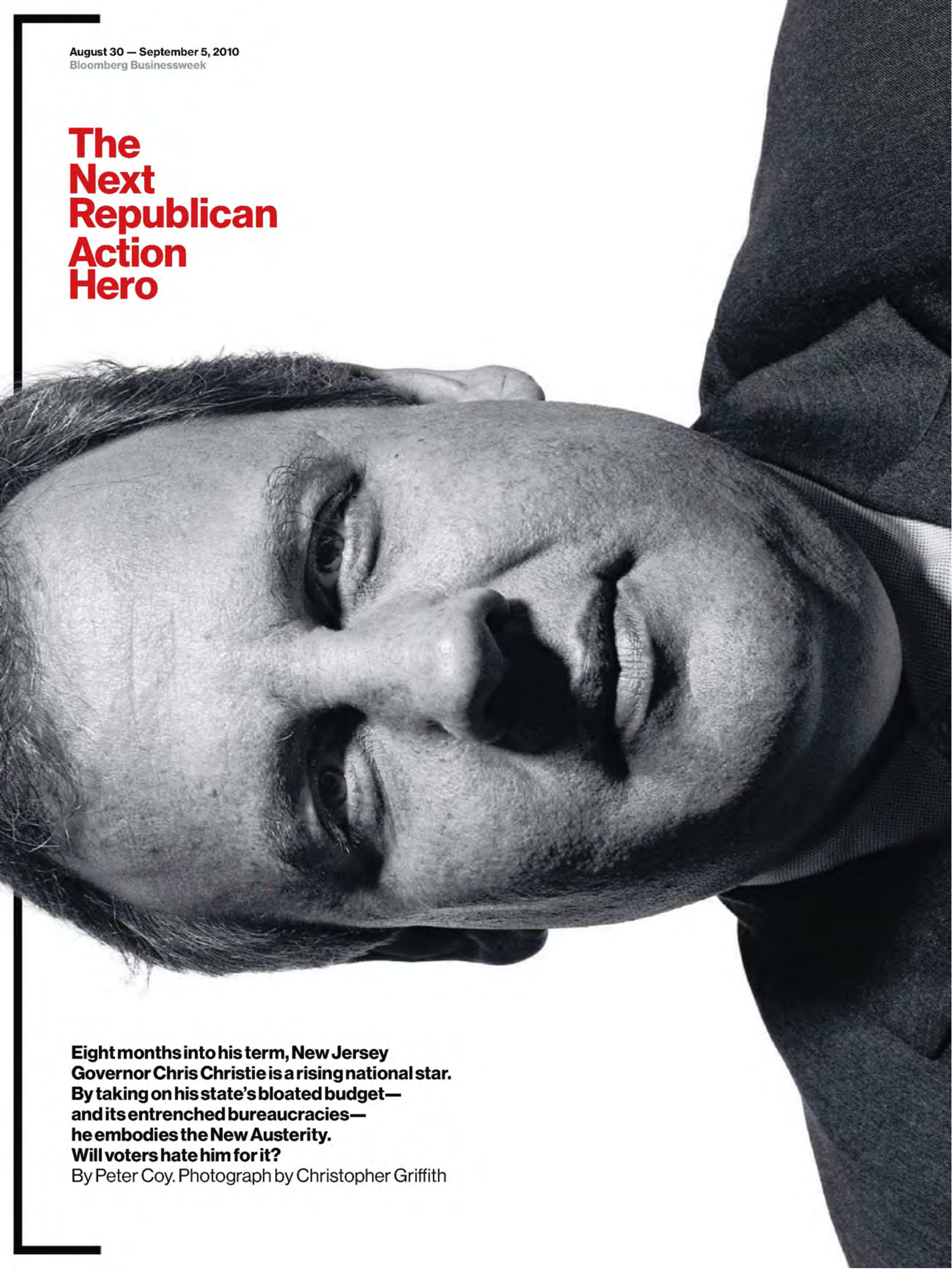
During another board meeting, Akerson questioned Henderson sharply after the company lost $1 billion on currency exchange in Korea. He demanded to know what steps Henderson had taken to manage risk. Henderson said GM had no risk management policy for currency trades and didn't need one, according to a person with knowledge of the meeting. Akerson argued that GM should not be hedging currency; it should be using hedges only for raw materials such as steel and aluminum, he said, according to two people with knowledge of the meeting. GM's board is now coming up with a risk management process, which Akerson will have to carry out as CEO.

Above all, Akerson will have to complete Whitacre's reengineering of the corporate culture: trimming bureaucracy, canceling meetings, and avoiding the strategic analysis paralysis that comes when managers share responsibilities—"so no one was really responsible," as Whitacre says.

In an Aug. 12 conference call with reporters, Akerson said he would stick with Whitacre's plan. "Ed's vision of simplifying the business, of giving people the accountability and authority to do their jobs, has served the company well," he said. The difference between the two, says retired GM Vice-Chairman Robert A. Lutz, is that Whitacre has better ears. "Sometimes these guys start out tough and then settle down," Lutz says. "He needs to develop his listening skills." A dozen colleagues—the directors of General Motors—will be listening hard to make sure he does. B

August 30 — September 5, 2010
Bloomberg Businessweek

The Next Republican Action Hero



Eight months into his term, New Jersey Governor Chris Christie is a rising national star. By taking on his state's bloated budget—and its entrenched bureaucracies—he embodies the New Austerity. Will voters hate him for it?

By Peter Coy. Photograph by Christopher Griffith



Chris Christie is the lead actor in a new movie. It's a short film, no more than 20 minutes or so, yet its backer–the Republican Governors Assn.–expects to reap millions in donations from his brief appearance. The moody film features black-and-white images flashing by–storm clouds, campaign rallies, and urgent news clips from election-night broadcasts. A Republican has won the governor's race in New Jersey, a Democratic stronghold, and the party of Barack Obama has been rendered powerless by his take-no-prisoners style.

In less than eight months in office, Christie, a 47-year-old former prosecutor and lobbyist, has risen from an unknown to a signal attraction in the fund-raising and messaging wars. "I think he's a star," says Ed Rollins, who directed campaigns in 1984 for President Ronald Reagan and in 1993 for Christine Todd Whitman, the last Republican elected governor of New Jersey. (Rollins bragged of suppressing the anti-Whitman vote, then retracted the claim.)

When he moved into the New Jersey governor's office on Jan. 19, Christie faced a budget crisis of almost Greek proportions: Projected revenues for the coming fiscal year were nearly $11 billion short of what it would cost to fully fund every authorized program. Since then he has impounded more than $2 billion in unspent funds, fought off legislators' attempts to raise taxes, pushed through a budget that slashes spending, pressured schoolteachers to pay for their health-care benefits, and taken a first crack at fixing one of the nation's most underfunded pension systems. Christie says he's been contacted for advice by GOP gubernatorial candidates Meg Whitman of California, Tom Corbett of Pennsylvania, Bill Brady of Illinois, Chris Dudley of Oregon, Robert Ehrlich of Maryland, and Charlie Baker of Massachusetts. "People say to me, 'Can you really get it done in Massachusetts given that the overwhelming majority of the legislature is Democratic?'" says Baker. "I say, 'Drive down the Turnpike. Eventually you'll get there. That's exactly what's happening in New Jersey.'"

Christie's campaign to fix the finances of the state with the highest property taxes in the nation, and a $46 billion underfunding of its pension system, is still in its early stages. Victory is far from assured. Barbara Buono, the State Senate's second-highest-ranking Democrat and its top female, complains that the governor has been "brash and confrontational." Columnist Tom Moran of Newark's *The Star-Ledger* calls him "Governor Wrecking Ball." Democrats, who control both houses of the legislature, are resisting Christie's effort to reshape the state's Supreme Court by refusing to approve his nominee. The Communications Workers of America tried to add a special assessment to union dues in New Jersey specifically to combat him (the rank-and-file voted no). And with schools opening, parents who welcome fiscal austerity in the abstract are about to see first-hand evidence of the impact of reductions in state aid to education, which could weaken support for further cuts. Even now, before the belt-tightening has been fully felt, support is lukewarm; three public opinion polls taken over the summer had Christie's job approval rating at 44 percent to 51 percent.

Investors in the credit-default swap market aren't yet persuaded that Christie has found the key. The cost of insuring New Jersey government bonds against default for five years has risen to 2.17 percent of the bonds' face value annually from 1.56 percent when he was inaugurated. Swaps on New York and Pennsylvania have performed about the same. His administration's reputation for competence took a hit on Aug. 24 when New Jersey barely missed out on $400 million in federal Race to the Top grants, possibly because of an error in its application.

"There are so many political minefields in New Jersey," Christie said a day earlier in his high-ceilinged office in the State House. "If you spend your whole time looking down for mines, you can't see the future." Christie says he's determined to govern as if he didn't care about winning a second term. (Reelection is something he claims not to have thought about.) That strength could turn into a weakness if his farsightedness causes him to lose near-term public support–a critical ingredient in his recipe for success; wrecking balls do swing both ways. Steve Malanga, a public policy expert whom Christie cites as one of his intellectual influences, warns that the governor's job will get harder as financial necessity forces him to go beyond politically easy targets like public-employee unions and

OPPOSITE PAGE: ROBERT SCIARRINO/STAR-LEDGER/CORBIS; JOE RAEDLE/GETTY IMAGES

1962 Christopher J. Christie is born in Newark. He grows up in Livingston, N.J., 20 miles west of Manhattan.





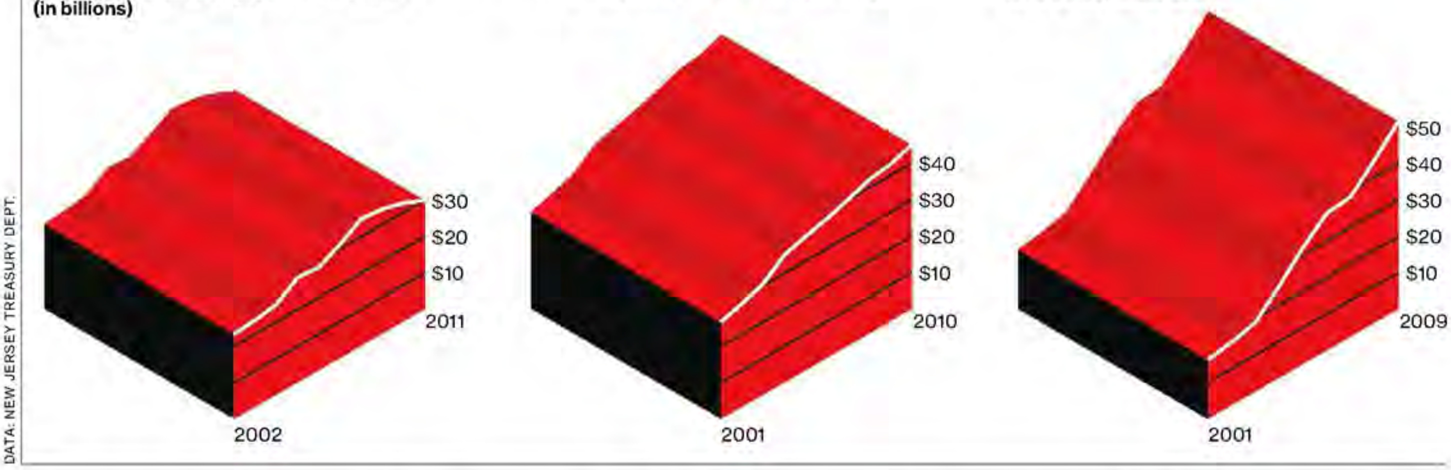
1984 Graduates from University of Delaware.

1986 Marries Mary Pat Foster, a fellow Delaware alum. They go on to have four children.

1987 Graduates from Seton Hall University School of Law in Newark.

1993 Makes partner at the politically connected law firm of Dughi, Hewit & Palatucci of Cranford.

New Jersey has boosted government spending and debt



take on programs that are popular with the taxpaying middle class. Thirty-eight percent of registered voters gave him a D or F on property tax relief in a Monmouth University/Gannett New Jersey Press Media Poll on July 7-11.

Says Malanga, a senior fellow at the free-market Manhattan Institute who spoke with Christie repeatedly during the 2009 campaign: "The tightrope that he has to walk, which I don't think a lot of his admirers across the country understand, is that he has to retain a certain amount of popularity with the electorate, because as soon as the legislature thinks he's no longer popular, they'll stop cooperating with him. They'll smell blood in the water. He can't just start putting through deep, slashing cuts that upset even his own constituents, or he really will have a problem."

Where Christie is out in front of his political peers is in the realization that the status quo is a dead end. Talking about austerity and then trimming around the edges won't do the trick. Like Washington, states as a group are on an unsustainable path in which rising spending on retirement and health-care benefits will exceed the revenue available from taxation. In March the Government Accountability Office warned that unless taxing and spending policies change, the combined deficits of federal, state, and local governments will hit 20 percent of gross domestic product by 2060. By comparison, their combined deficits in 2009, the worst recorded since the Great Depression, were just a little more than 10 percent.

On Aug. 18, without admitting wrongdoing, Christie's administration settled claims that between 2001 and 2007, the state misled investors in $26 billion of municipal bonds by masking the chronic underfunding of its two biggest pension plans. Christie says the settlement shows why the pension changes he seeks are essential. "In that respect it's a good thing." In his office—where he is surrounded by baseball memorabilia, a blue-and-white Fender guitar signed by Bruce Springsteen, and a blender he uses to mix weight-loss shakes—the governor laid out a long-term plan for shrinking government, lowering taxes, fixing pensions, and making New Jersey a friendlier place for business. He dismisses suggestions that a misstep could be dangerous. "Every day in this job there is a problem that if you don't handle it correctly could prove to be your undoing," he says. "If I step on a mine, I step on one." The greatest danger, he says, is in underestimating the scope of the crisis. "With all this national attention, [the risk] is somehow people thinking that we've fixed the problem. We haven't. But we've made progress toward fixing the problem."

The progress is real, says Richard Keevey, who was budget director for Democratic Governor James Florio and Republican Governor Thomas Kean. "The problem he inherited is very large, and his approach to the problem has been



1994
Elected to Morris County Board of Chosen Freeholders, the county legislature.

1995
Challenges an incumbent in the Republican primary for a seat in the New Jersey General Assembly but loses.

1998
Defeated in Republican primary for the Morris County freeholder post after party puts up a rival candidate.



2000
As a registered lobbyist, becomes a Pioneer fund-raiser for George W. Bush's Presidential election campaign.

2002
Bush names him U.S. Attorney for the District of New Jersey. A law partner says he helped by sending Christie's résumé to Bush adviser Karl Rove.

the right approach," says Keevey, who was impressed enough to accept a seat on the governor's council of economic advisers.

Christie's political ascent has been recent and rapid. He grew up in a relatively apolitical household, with a Republican father and a Democratic mother who worked in a school office. At age 18, he was inspired by Reagan's first successful campaign for President in 1980 and embraced conservatism. In 1994, as a corporate lawyer, he won a seat on the Morris County Board of Chosen Freeholders, his county's legislature. When he ran afoul of the Republican Establishment for challenging a powerful incumbent in the General Assembly and failed to win nomination for a second freeholder term in 1998, his political career appeared over. But in 2000, as a registered lobbyist whose firm's clients included the securities industry, a hospital, and a utility, he became a fund-raiser for the Presidential campaign of George W. Bush and achieved Pioneer status by bringing in $100,000 or more.

Two years later he was named U.S. Attorney for the District of New Jersey—a plum job that provided abundant opportunities to prosecute public corruption. From 2002 through 2008 his office won convictions or guilty pleas against 130 public officials without losing a case. Those convictions left some of the state's ruling Democratic party machines in disarray. That's helping him now that he's running things in Trenton, although there's no evidence that Christie engaged in any prosecution for political reasons.

In 2009, Christie ran for governor against the one-term Democratic incumbent, Jon Corzine, a former senator from New Jersey and ex-CEO of Goldman Sachs. Pounding home the message that

Christie's job approval rating has steadied

Approve Disapprove Don't Know



*HANDLING OF TRANSITION TO GOVERNOR
DATA: FAIRLEIGH DICKINSON UNIVERSITY

Corzine was ineffectual, Christie won with 48.5 percent of the vote, vs. about 45 percent for Corzine and 6 percent for independent Chris Daggett. In March he proposed a $29 billion budget for the fiscal year beginning July 1 that imposed no new taxes, cut aid to municipalities and schools, and skipped a $3 billion pension contribution. Corzine's last budget was just over $32 billion.

What earned Christie national fame wasn't the magnitude of the cuts but the way in which he picked a fight with public-employee unions. When he announced this spring that he was skipping the pension fund contribution, he made it a symbolic act, too, vowing not to put more money into the system until the legislature agreed to reforms necessary for long-term solvency. Christie also pressured teachers, who don't work for him, to agree to contribute 1.5 percent of their pay toward their health-care benefits. He warned them that if they didn't go along, he would campaign against passage of school budgets in their districts. Most teachers refused to contribute, Christie did as he had promised, and voters rejected a record 59 percent of school budgets. At the end of June, the Democratic-controlled state senate and assembly passed Christie's budget almost unchanged from his proposal.

Christie's most astute move was to curtail future local spending by cramping the primary means of funding it. After seeking a strict limit in the state constitution on increases in local property taxes, he settled for a law that held property tax hikes to 2 percent annually with few exceptions. The cap gives mayors and councils an incentive to support changes in civil-service rules sought by Christie that make it easier to lay off or cut employee pay.

The sequencing was masterful: Christie says he probably would not have the mayors' support for those cost-saving measures if he hadn't first gotten lawmakers to pass his cap. Next up is pension reform. "I'm working on all of these things at once because they're all interconnected," Christie says. "I don't see how any responsible governor has a choice anymore not to take on the public-sector unions." Says Tom Corbett, Pennsylvania Attorney General and Republican nominee for governor in this November's election: "He certainly sets an example I think other governors can follow." Even David Paterson, the Democratic governor of New York, has praised New Jersey's property-tax cap.

Despite his admirers, the Christie formula isn't easily transported to other states. Like an LBO specialist sent in to unlock the value of a badly managed company, Christie is working with a state that

FROM LEFT: PAUL ZIMMERMAN/SIPA PRESS; TIM LARSEN (2); AGE FOTOSTOCK; MEL EVANS/AP; TIM LARSEN

2002-2008
Chalks up 130 convictions or guilty pleas of public officials, including former Newark Mayor Sharpe James and Democratic Party bosses.

2009
Wins election as governor, defeating incumbent Jon Corzine, a former CEO of Goldman Sachs.



2010

Jan. 19
Sworn in as governor.



Feb. 11
Declares a state of emergency and impounds $2.2 billion of funds already appropriated by the legislature.

March 16
To close an $11 billion deficit, proposes a $29 billion budget that has no new taxes. It cuts aid to localities and schools, lays off 1,300 employees, and skips a $3 billion pension contribution.



has great underlying strengths. Contrary to the image projected by MTV's *Jersey Shore*, New Jersey is educated and prosperous. It ranks second in the nation in per-capita income (behind Connecticut) and fifth in the percentage of people 25 and older who have bachelor's degrees, according to the Census Bureau. It's in the nation's densest urban zone, with New York City on one border and Philadelphia on another. Jersey City, across the Hudson from lower Manhattan, has sprouted a forest of tall buildings filled with financial firms like Goldman Sachs and Morgan Stanley. The center of the state has vast campuses of pharmaceutical companies such as Bristol-Myers Squibb, Johnson & Johnson, Roche, and Merck. And even though it's no longer the headquarters of the Bell System, New Jersey still has a web of telecom and data center infrastructure.

From the 1960s through the mid-1990s, New Jersey used lower taxes and cost of living to lure jobs out of New York City. But steadily rising taxation has lessened its allure, says the Manhattan Institute's Malanga. Much of the spending increase has occurred at the local level (chart). In the well-to-do New York City suburb of Closter, N.J., which has a below-average crime rate, all but two of the 20 members of the police force are earning more than $100,000 this year, not including benefits or overtime. To blame: Arbitration rules that are tipped in unions' favor—and that Christie is trying to change. New Jersey ranked last in a Tax Foundation survey of states' business-tax climates. "What's particularly disturbing to us is that we have now fallen behind our regional competitors such as New York and Pennsylvania and Delaware and Connecticut," says Philip Kirschner, president of the New Jersey Business & Industry Assn.

Verizon New Jersey President Dennis M. Bone, interim chairman of a new public-private partnership called Choose New Jersey, says Christie has energized businesses by working to hold down their taxes, streamline regulation, and keep jobs in the state. Christie says when he heard that Honeywell International was about to move its 1,200-employee headquarters from Morris Township to Pennsylvania, he told CEO David M. Cote, "Give me a week." Christie offered tax credits that persuaded Honeywell to stay—and expand.

The friendly face Christie shows to business isn't in evidence in his confrontations with the New Jersey Education Assn. and other public-employee unions. His method is divide and conquer. On pensions he formed an alliance with Democrat Stephen M. Sweeney, the state senate president and treasurer of an Ironworkers union local in South Jersey. (It was Sweeney who began pushing pension reform in 2006.) Christie has also exploited regional divisions between Democrats in the legislature.

Party discipline is much tighter among the Republicans in Trenton and tighter still in the Christie administration. Some 24 of his appointees worked under him in the U.S. Attorney's office, including his attorney general, his chief counsel, his press secretary, and the head of the school development authority.

Being a Republican in a state with a Democratic legislature is not the handicap it might seem. While Corzine and other Democratic governors felt they needed to accommodate the wishes of the powerful county Democratic leaders to keep peace within the party, Christie feels no such compunction, says Ross Baker, a Rutgers University political scientist. "He just doesn't give a damn," says Baker. "One should never underestimate the value of fortitude in a politician. Chris Christie's got fortitude in abundance."

The rap on Christie from his sometime-ally Sweeney and others is that he can be gratuitously confrontational. His riffs go over big on YouTube but not in Trenton. State Senator Buono accuses Christie of "scapegoating and demeaning anyone who disagrees with him. That drowns out thoughtful, honest discussion and debate about the issues. All it really does is further undermine the public's confidence in its government."

The senate and assembly haven't fought back hard because their standing with the public is lower than his. They might discover some backbone if the people of New Jersey—like, say, the people of Greece—start chafing under austerity. The state Civil Service Commission says 132 local governments have filed applications since January seeking to fire as many as 2,674 workers. In Newark, Democratic Mayor Cory Booker closed city pools in August and put nonemergency workers on 19 days of furlough. "We're going to stop buying everything from toilet paper to printer paper," Booker said. "Call me Mr. Scrooge, if you want, but there'll be no Christmas decorations around the city."

No Christmas decorations! That's just the type of thing that has wrecked the careers of previous governors who went to Trenton with the best of intentions. Then again, New Jersey's financial situation is more dire now, and people know it. The time may be right for Jersey's new action hero to kick down a few doors. B

—With Terrence Dopp, Dunstan McNichol, and Laura Litvan

April

Egged on by Christie, who said teachers didn't sacrifice enough, voters reject a record 59 percent of school budgets.



May 20

Vetoes a $700 million "millionaire's tax" on high-income residents.

May 22

Public-sector unions stage a march on Trenton.



June 29

Christie's budget passes nearly intact after Democrats, who control both houses, choose not to fight.

July 13



Signs a bill capping property taxes at 2 percent. The compromise measure allows some exemptions he had opposed, such as for natural disasters.


















With Red Dead Redemption, Strauss Zelnick and the Houser brothers have a hit. But to survive, Take-Two Interactive needs a few dollars more. By Cliff Edwards
















The Wild Bunch














Strauss Zelnick, the chairman of Take-Two Interactive, sits in a soundproof room enjoying a moment of professional success and a cookie. The room is part of a lavish Take-Two installation at Electronic Entertainment Expo, aka E3, the annual video game conference that's held each June in Los Angeles.

You've got to spend money to make money, he explains between bites, referring to the elaborate setup outside, where an endless stream of conference-goers, mostly geeky guys in jeans, are posing for pictures with Tommy gun-toting Playmates hired to promote Take-Two's upcoming Mafia II game.

Zelnick doesn't look much like his customers. He's 53 years old, dressed in a dark suit and pin-striped shirt, and sufficiently tanned and fit to have made the November 2008 cover of *Men's Fitness* magazine. Although Zelnick is looking good, his business is looking ... uncertain. Video games, once considered recession-proof, are stumbling, and while Take-Two has produced a hit with Red Dead Redemption, the company is still struggling toward profitability. Sales of all but the hottest, most-hyped games have tanked since 2009. Wedbush analyst Michael Pachter says July marked the fifth straight month that overall title sales have fallen. "Some of our competitors who put out modestly good games this year, they got clocked," Zelnick says. "They're not developing great products, they're delivering good products. Good is the new bad."

Just now, though, Zelnick has a product to celebrate, and it's better than good. Red Dead Redemption has become the industry's summer blockbuster. And it happened in large part because Zelnick stayed with a project that was overdue and over budget.

Red Dead, conceived before Zelnick took over in 2007, is one of several long-gestating and expensive games Take-Two hopes will break its reliance on its popular, and often controversial, Grand Theft Auto franchise, which had its debut in 1997.

Since its release in late May, Red Dead, a $59.99 game, has shipped more than 5 million copies. Few games are as chaotically dynamic and stylishly cinematic (think Clint Eastwood's *Unforgiven*) as Red Dead. Seth Schiesel of *The New York Times* called the game a "tour de force" and "the new standard for sophistication and ambition in electronic gaming." Set in the early 1900s, it's a gloriously rendered "open" world that allows players to roam parts of the Western U.S. and Mexico and to do as they please. Skin a dead wolf, and blood splatters on the screen. Gallop into a lush red sunset, and dust rises on the trail. As in Grand Theft Auto, players get to choose how moral they want to be, this time while standing in a six-shooter's shoes. People die. Lots of them. Six Dutch gamers were so taken with it that in July they played Red Dead for 50 hours straight and broke the Guinness World Record for nonstop gaming.

In the best case, Red Dead may be that wonderful phenomenon in the video game world, the "franchise" game that fuels a long cycle of sequels. With Red Dead, Zelnick also aims to prove that the Hollywood-style formula of producing epic games, coupled with budgets to match, still works at Take-Two Interactive. And Red Dead's success marks a turnaround for a game that was starting to look like gaming's *Heaven's Gate*, the too-long and too-late Michael Cimino western that helped break the back of United Artists in 1980.

If creativity thrives on chaos, Take-Two Interactive has been creating the conditions for artistic genius. For years the Manhattan-based company has attracted critics, among them the Securities & Exchange Commission, Hillary Clinton, and a group claiming to be programmers' wives, which in January of this year posted an anonymous open letter damning the company's labor practices.

Grand Theft Auto has long appealed to outraged citizens as well as fans. In 2005 players uncovered a hidden mini-game in Grand Theft Auto: San Andreas, dubbed Hot Coffee, that allowed them to have virtual sex with their in-game girlfriends. A grandmother in New York filed a class action that was later settled; she had bought a copy for her grandson. Hillary Clinton, then a New York senator, called for a federal investigation.

In 2005, Take-Two paid $7.5 million in penalties to settle a case brought by the SEC alleging that officers of the company, including founder Ryan Brant, engaged in "fraudulent accounting practices designed to inflate its reported revenue during fiscal years 2000 and 2001." The SEC alleged that the company was recognizing revenue from "parking" transactions–shipping hundreds of thousands of games to distributors and repurchasing them after they had booked the sales, disguising the repurchases as "assorted product." In the settlement, Take-Two did not admit wrongdoing.

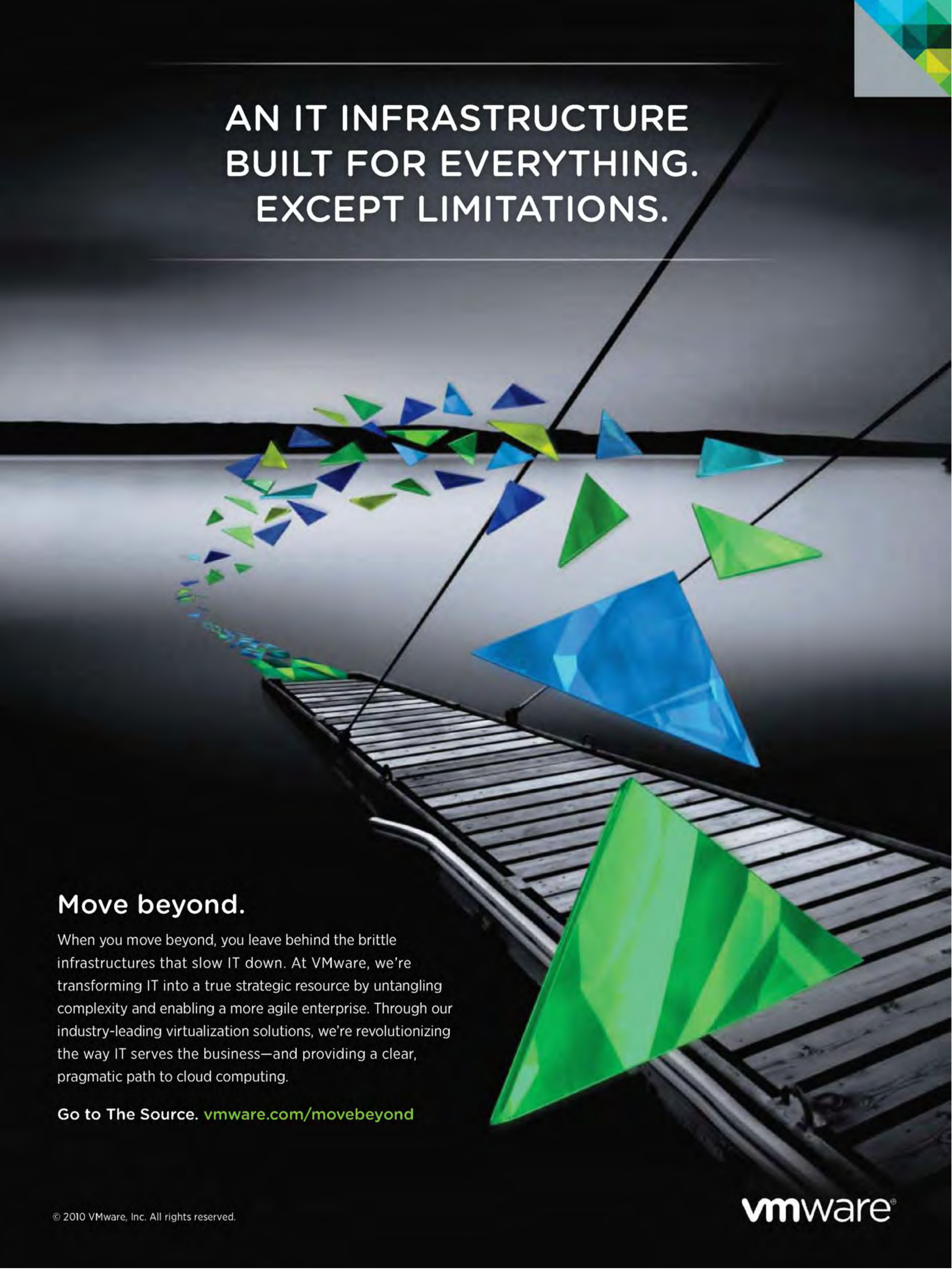
In 2007, Brant, who had resigned from the company, pleaded guilty to falsifying records in a stock option backdating scandal and paid a fine of $7.26 million. Company spokesman Alan Lewis says that's old news. "It's not who the company is today," he says. "We've moved beyond that."

In 10 of the last 13 quarters since Zelnick became chairman in 2007, the company has lost money. In 2008, Zelnick stunned Wall Street when he and the newly installed board rejected a $2 billion takeover bid by Electronic Arts, then the largest independent video game publisher. Zelnick says the bid undervalued Take-Two. "It was a highly conditional tender offer," he adds, "and the conditions were never removed." Today, Take-Two's market value is around $700 million. The stock, trading at about $12 a share last November, goes for around $8 now.

Some analysts say Zelnick is too accommodating of his enfants terribles, the Housers. Says one critic: "There's no adult supervision over there"



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The company's poor performance attracted corporate activist Carl Icahn, who has built a significant stake in Take-Two. He owns almost 14 percent of the company (as of June 30) and has installed three board members, including his son, Brett, who works at his investment firm; SunghWan Cho, a former director of finance for Atari who also works for Icahn; and James L. Nelson, a director at Icahn Enterprises. In an industry ripe for consolidation as development costs soar, he stands to make money if Take-Two is purchased, according to a source familiar with his thinking. And given Take-Two's reputation for big budgets and overdue games, Icahn may see room for cost savings.

Both Grand Theft Auto and Red Dead are the creations of the London-born brothers Sam and Dan Houser, who started work on Red Dead amid Take-Two's turmoil in 2005. Gamers might not know Hitchcock, Cimino, or even Tarantino, but they know the Houser brothers. The reclusive leaders of Rockstar Games create cinematic takes on American culture. Vice-President Sam, 38, looks like a rock star himself with shoulder-length hair, a scruffy beard, and sunglasses. Creative director Dan, 36, is the opposite, with a shaved head and a boyish appearance.

The Housers declined to comment for this article. In the past, however, they've made their philosophy clear: We will sell no game before its time. Dan Houser summed it up in a May 2008 interview in *New York* magazine. "F--- all this stuff about casual gaming," he said. "I think people still want games that are groundbreaking. We always said: We're not going release a large number of games. They're going to have the production values of movies."

Much of the work on Red Dead was done at Rockstar San Diego, which occupies an unremarkable office building in the suburb of Carlsbad. Rockstar San Diego took more than five years to finish Red Dead, on a budget that Mike Hickey, an analyst at Janco Partners, estimates may have exceeded $70 million.

Some analysts blame Zelnick for being too accommodating of his enfants terribles at Rockstar. "There's no adult supervision over there," says Wedbush's Pachter, a frequent critic. "The Rockstar guys are able to do whatever they want. They should produce a couple of 90-rated games in three years instead of a single 95-rated [game] in six." (Ratings on metacritic, a website that aggregrates reviews, range from 0 to 100 and have become crucial to a title's success.)



Zelnick bet big on Red Dead

Zelnick counters that he supports the Houser brothers' creative viewpoint. Still, he says, "You never, ever want to say we do such a great job [that] we don't have to have discipline."

In 2009, after four years without a release, Red Dead appeared to be one of those inspired projects that never gets finished, like Duke Nukem Forever, also in the Take-Two stable, a much-anticipated game that has been in development for 13 years. Then last November, Leslie Benzies, president of Rockstar's Scotland studio, which leads development on the Grand Theft Auto franchise, arrived in San Diego to take charge in an office off the production floor, from which he oversaw 200 employees.

Months later, in January, people calling themselves spouses of Rockstar employees in San Diego complained of terrible working conditions. A blog posting on the gaming website Gamasutra described how employees toiled away in their cubicles for 12 hours a day, with mandatory Saturdays; a response compared the New York offices to the Eye of Sauron that dominates Middle Earth in the *Lord of the Rings* trilogy.

At the time, Rockstar made light of the allegations by creating three downloadable computer screen wallpapers depicting an all-seeing eye with the Rockstar logo. "This was someone lobbing a grenade over the wall and posting it publicly," Zelnick says. "Lord knows, we make mistakes now and then. In this particular instance, we couldn't come up with any mistakes that had been made."

Red Dead's release continued to be pushed back, while Rockstar worked to fix more than 200,000 bugs, some of them as minor as the color of dust. Apr. 27 came and went, but the Manhattan billboard with that date on it—a three-story high advertisement depicting Marston with a bandolier around his chest, aiming a revolver—remained.

Janco analyst Hickey estimates that Red Dead Redemption will break even at 4 million copies. Supporting the development of the next major epic is another matter. The gaming industry, as analyst Pachtel suggests, is moving toward less ambitious projects. With thinner wallets, even hardcore gamers are getting choosy. Facebook and other platforms are sapping available dollars, and hours, with more "casual" games selling for $1.99. Then there's the increasing payday that celebrity developers like the Housers command. In 2008 the Housers signed a new deal with Take-Two that, in addition to licensing rights, gives them a share of profits generated from each game they release. That deal expires in January 2012, and Take-Two likely will have to cough up even more to keep the Housers from bolting to a rival.

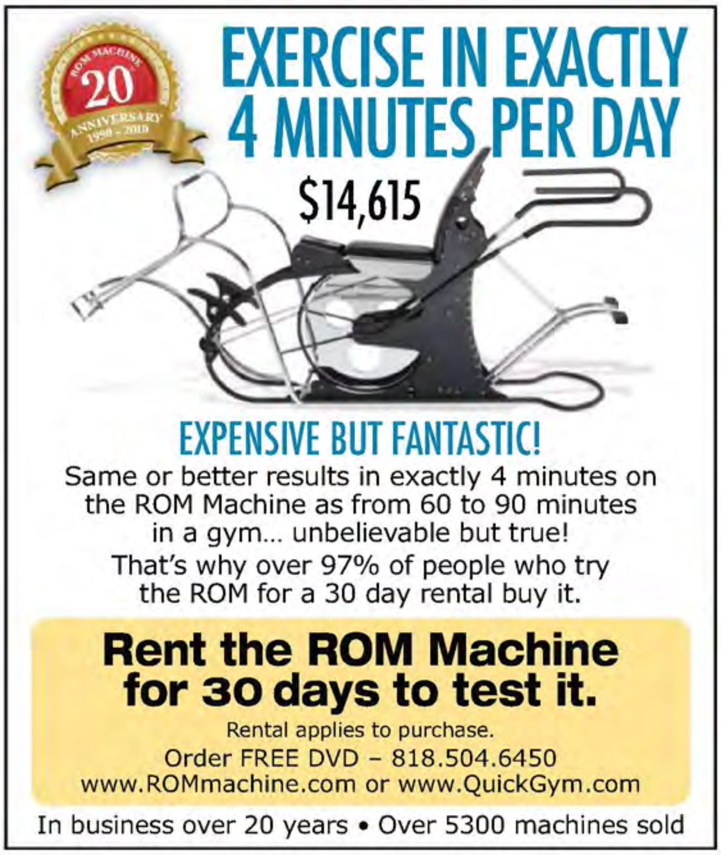
Zelnick won't say whether he's already opened contract negotiations with the Housers, though even the possibility of their defection should be frightening. In 2003, when Electronic Arts, the maker of Madden NFL, saw its Medal of Honor development teams jump ship, sales of that franchise tumbled 40 percent. Those teams then produced the Call of Duty franchise, which has consistently outsold Medal of Honor since their departure. During E3, the industry buzzed with reports that Activision CEO Bobby Kotick had hosted the Housers in his box at a concert. Kotick and the Housers did not respond to requests for comment.

"I do pride myself on creating environments that attract and keep the best and brightest in the industry," says Zelnick. "You can never underestimate the blood, sweat, and tears that the creative team put in to make it happen. No one would have congratulated us on releasing Red Dead three months earlier." B

MARIO ANZUONI/REUTERS/CORBIS


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How the acai berry became a billion-dollar business Page 90



Should Your Trainer Look Like This?

Forget Pilates. Extreme adventure challenges like Spartan Race are becoming the rage for white-collar weekend warriors. *By Teddy Wayne*

Photographs by Andrew Hetherington

TOP: FUNKYFOOD LONDON - PAUL WILLIAMS/ALAMY

Etc. Fitness

Playing Dirty

"Spartans, prepare for glory!" bellows a bearded man in a cape and helmet as he paces before more than 1,700 jittery aspiring warriors. "No retreat! No surrender! That is Spartan law. Remember to return with your shield–or on it!" Then he grunts–"Ah-roo!"–and a horde of adrenalized hoplites charges forth with abandon.

So begins the Brooklyn (N.Y.) installment of Spartan Race, a 5K sprint that's equal parts Medieval Times, *American Gladiators*, and corporate road race. Spartan Race is just one of the extreme adventure challenges growing in popularity among young professionals, particularly those in finance. The race is the creation of 27-year-old Brit Richard Lee, a former Royal Marine, and his girlfriend, Montrealer Selica Sevigny. Competitors, who pay entry fees between $50 and $70, make their way past a dozen obstacles–including a crawl under barbed wire and a leap through fire–planted throughout the race, which is currently making its inaugural tour through nine cities in Canada, the U.S., and Britain.

The first modern adventure race is generally considered to be the 1989 Raid Gauloises in New Zealand, in which competitors traversed great distances by snowshoeing, camel riding, and other equally practical means of conveyance. Television producer Mark Burnett, of *Survivor* fame, launched an offshoot in 1995, the Eco-Challenge. The event was aired by turns on MTV, ESPN, the Discovery Channel, and the USA Network for nine years. These races, along with the continuing popularity of extreme sports, have offered a third way for professionals seeking something more strenuous than company softball and less militaristic than paintball. Lee estimates that 60 percent of the more than 15,000 anticipated challengers this year are on corporate teams.

"People may think they have it hard, but it's nothing like how hard it used to be," says Spartan Race CEO Duncanson



Stefanie Bishop at Spartan Race

Spartan Race is hardly alone in its attempt to transport white-collar professionals back to heartier, dirtier times. In the Warrior Dash series–which has courses from Southern California to the Northeast–participants receive a horned "warrior helmet" reminiscent of Hägar the Horrible's. There's also the British Tough Guy race, the arduous Tough Mudder series that travels the U.S., and the two-person Muddy Buddy race. Their common ingredient? Mud. "Corporate life, and life as we know it today, is very comfortable," says Brian Duncanson, CEO of Spartan Race, which is a subsidiary of Peak Races. "People may think they have it hard, but it's nothing like how hard it used to be." Or so the theory goes.

Soil abounds in Brooklyn's Spartan Race. For more than three miles, racers overcome irregularly spaced hurdles, a 12-foot-high pile of wood and dirt, a horizontal climbing wall, an inclined ramp greased with shortening, and–just before the finish line–two bare-chested men with jousting sticks. It's messy, but is it really Spartan? "I'm a big fan of the movie *300*, and we were looking for a symbol that represented ingenuity, bravery, strength, and the will to overcome adversity," says co-founder Sevigny. "The Spartans were renowned for that."

The six fastest finishers in Spartan Race–three male and three female–receive free admission to the forebodingly named Death Race, held in March and June in Pittsfield, Vt. The 24-hour-or-so 10-mile course pits racers against a series of bizarre surprise challenges intended to tax them mentally as much as physically. Before entry, participants are required to sign a waiver with the sobering line: "I may die."

Both the Spartan Race and Death Race are operated by parent company Peak Races, which is owned by Joseph Desena, 41, a former Wall Street banker and the current managing director of portfolio trading at Pittsfield (Vt.)-based financial adviser Collins

Spartan Race is neither the only adventurous road race nor the weirdest. Here are other options for executives bored with their ellipticals.

Tough Guy
Perton, Staffordshire, England

Obstacles:

Length: 7.5 miles (variable); 2010 winner finished in 1 hr., 19 min. **Challenges:** Scaling electric fences with twice the charge needed to stun a bull; descending rubber-covered hillside of "Viagra Falls" while being hosed by firemen; post-race British cuisine.

Tough Mudder
14 locations throughout the U.S.

Obstacles:

Length: 7 to 12 miles; average time to complete is 2.5 hrs. **Challenges from the Bear Creek (Pa.) course:** Traversing a swinging rope bridge directly over near-freezing water; scaling slick 12-ft.-high climbing walls; running around 4-ft.-high flames.

Canadian Death Race
Grand Cache, Alberta, Canada

Obstacles:

Length: 80 miles with 17,000 ft. of elevation change; 2010 winner finished in 12 hrs., 45 min. **Challenges:** Running over and through pavement, gravel, creeks, a mud bog, cliffside trails, knee-deep water; conquering a 6,986-ft. mountain.



Hit me, baby, one more time



Climbing a shortening-greased wall

Stewart. "Our best analogy to present our message is that we are all animals," Desena says. "Visualize this: You come home one day and your pet is watching *Oprah*, drinking a coffee, toenails painted, smoking a cigarette, and complaining that she needs a new mattress. Or you come home and that same dog just ran 22 miles chasing a bird, killed it, ate it raw, and drank some water. Which animal is the normal one?" Desena claims that entrance fees to the races allow Peak to "just about break even," but money seems secondary. "There is something greater to do than worry about maximum profit," he says. "Just ask Bernie Madoff."

New Yorker Stefanie Bishop, 27, vice-president for equity derivatives at brokerage firm Elevation, won the winter Death Race and finished first among women, and sixth overall, in the June event. (Spartan Race skews about two-thirds male; Death Race, which rigorously screens admissions and limits participation to 100, is even more testosterone-heavy.) To win, Bishop had to submerge herself in an ice-broken pond for 45 minutes and drink a gallon of milk. "One of the girls was lactose-intolerant," she recalls. "She put it down pretty quickly, but part of it came up."

Another bafflingly cruel Death Race task required Bishop to bushwhack through mountainous woods carrying a pack filled with $50 worth of pennies (about 28 lbs.), 10 lbs. of raw onions, and an 8-lb. Greek language primer (for later use in translating the sentence "The race is only a quarter over"). In the middle of the woods they were met by a crowned man who called himself the Onion King. Contestants were forced to chop up the onions in 1-in.-by-1-in. pieces, sort them into 1-lb. bags, and eat one bag. On the other side of the mountain, they had to eat another pound. It could have been worse: During the winter running of the race, contestants were given a sequence of eight two-and three-digit numbers to memorize. After running four miles, they had to recite it correctly—or else run back up the mountain.

In the middle of Death Race, contestants are met in the woods by a crowned man who calls himself the Onion King

Bored by triathlons, Bishop prefers wood chopping (she owns an ax) and snaking under her own barbed-wire course to doing time at the gym. She contends that adventure races have also expanded her business network. "By the time you finish, you might have a new group of friends and contacts," she says. "If I have a client who runs 5Ks but is not extreme, I'll encourage them, and I'll do it with them. They're always happy about it, and it's a bonding experience for us."

Ex-U.S. Marine Alex Fell, co-founder and drill instructor at Warrior Fitness Boot Camp in Manhattan, trained about 50 runners for this year's Spartan Race. "The majority of our clients are in finance," he says. "They have that type-A, real competitive personality; they want to see if they have what it takes to survive this kind of training." The recession may also explain the surging popularity of adventure races. Sara Rouf, an analyst at financial-services firm Stone & Youngberg, began training with Warrior Fitness after she lost her last job because of restructuring at JPMorgan Chase. "People who work in finance need to have some sort of hungry attack-mode challenge every day," she says of the laid-off bankers who've used newfound downtime to practice crawling beneath barbed wire.

On the sidelines of Spartan Race, Marines man a pull-up bar where Spartans can test their mettle. Anyone matching the strongest Marine's streak of 30 full-extension pull-ups receives a free T-shirt. No one comes close. In one area, at least, the Spartans return home in ignominy, and steel themselves for battle on Monday morning—in search of another form of glory. B

Sleeping On the Job

A growing number of companies are encouraging employees to nap—at work. *By Jascha Hoffman*

Now that a number of companies are offering napping rooms, snoozing at work isn't so embarrassing any more



CLOCKWISE FROM TOP RIGHT: FRIEDEMANN VOGEL/GETTY IMAGES; ZIV KOREN/AFP/GETTY IMAGES; ANTONIO CALANNI/AP PHOTO; REX USA; JEFF J MITCHELL/GETTY IMAGES; PAUL J. RICHARDS/AFP/GETTY IMAGES; CYNTHIA JOHNSON/GETTY IMAGES; KEVIN LAMARQUE/REUTERS/CORBIS

From Thomas Edison and Winston Churchill to Bill Clinton and George Costanza, the nap has had many famous champions. And with good reason. Ever since sleep scientist David Dinges helped found the modern science of napping in the early '80s at the University of Pennsylvania School of Medicine, short periods of sleep have been shown to improve alertness, memory, motor skills, decision-making, and mood. All while cutting down on stress, carelessness, and even heart disease.

With Americans averaging fewer than seven hours of sleep per night—and around 20 percent suffering from sleepiness during the day, according to a recent Stanford University study—many companies have turned to the humble nap in an attempt to stave off billions in lost productivity each year. Following the rise of workplace perks like lactation rooms, gyms, and child-care facilities, Nike workers now have access to nap-friendly "quiet rooms" that can also be used for meditation. Google, a forerunner in employee perks, has a number of futuristic napping pods scattered throughout its Mountain View (Calif.) campus.

Jawa, a small mobile technology company in Scottsdale, Ariz., has two resting rooms—one with a similar pod, the other with an old-fashioned couch—that are popular among programmers working long hours. Many airlines, including Continental and British Airways, allow pilots to sleep during long international flights while colleagues take over the controls. (The practice is prohibited for domestic flights by the Federal Aviation Administration.) Other companies, such as Ben & Jerry's, have no official policy but provide unofficial space for the practice and don't bat an eye when someone spends an extra half hour snoozing in the massage room. "If you have employees working 16-hour days, you want to give them an opportunity to take a power nap," says Melissa Gierginger, a spokeswoman for Jawa.

Other companies have opted to outsource their daytime sleeping solutions. Yelo, a napping spa in midtown Manhattan, has provided its services to



The EnergyPod can be rented for $795 per month

Hearst, *Newsweek*, and Time Warner. It offers naps in a "cocoon-like" treatment room in which clients can adjust aromatherapy, sound, and lighting. A 20-minute nap goes for $15. (A half-hour "Nap Plus"—including a 10-minute foot rub—costs $40.)

"Over the last few years, there's been a lot of focus on exercise and nutrition, but adequate sleep is arguably the most important element of productivity," says Christopher Lindholst, co-founder of MetroNaps, which markets a napping chair called the EnergyPod to such companies as Google, Procter & Gamble, and Cisco Systems. The EnergyPod, which looks like Pacman with a really long tongue, boasts ergonomic support and a built-in music system with a headphone jack to eliminate background noise. "The EnergyPod is designed to provide some privacy, but it's typically installed in a common area so you create an environment of awareness and acceptance," says Lindholst. MetroNaps rents its EnergyPod for $795 per month.

"Tiny naps are much more refreshing than people tend to realize," said Jim Horne, director of the Sleep Research Centre at Loughborough University in England. "A short nap in the afternoon will get rid of sleepiness without interfering with nighttime sleep." That said, it's best not to depend on napping as a permanent replacement for lost sleep. "On occasion it will get you over the hump, but whether it gets you back to peak is an open question," says Dr. Roger Rosa, a senior scientist at the National Institute for Occupational Safety and Health. "If you've lost an hour of your previous night's sleep, a nap may be just the ticket. If you've been up all night, it may give you a hangover effect" known as "sleep inertia."

According to Dr. Sara Mednick, a professor of psychiatry at the University of California at San Diego, not all naps are created equal. Mednick believes that naps weighted toward different stages of the sleep cycle confer different benefits. "If you do physical labor, you need more Stage 2 sleep," says Mednick. "If you are doing memorization or verbal work, you need more slow-wave sleep. And if you do creative or visual work, you need more REM sleep."

Dr. Mednick has devised an "Optimized Napping Formula" so ambitious nappers can maximize the desired phase of sleep. Napping newbies can purchase a device called Zeo ($199), which promises to track your sleep cycles for you via your brainwaves with a special headband. Those looking for a simpler contraption might prefer the Dream Helmet ($29.95), which serves as mask, pillow, and earplugs all at once.

Some researchers are skeptical about efforts to cultivate a given phase of sleep. "On a practical level, all a person can choose is how long they sleep," says Dr. Rosa. "You can't change the pace of the sleep cycle without sleep deprivation, which would be counterproductive." A strict dozing regimen, such as the kind employed by sailboat racers, military pilots, and astronauts, can replace nocturnal sleep altogether for a limited time. Leonardo da Vinci experimented with erratic sleep schedules, but it wasn't until the early 1980s that Italian researcher Claudio Stampi invented "polyphasic ultrashort sleep," which breaks up the day into several equal sections, each of which ends with a brief nap. As long as these mini "days" are kept intact, one can then whittle the naps down to as little as two hours of sleep per 24 hours—at least according to research published in Stampi's 1992 book, *Why We Nap*.

Google has a number of futuristic resting pods throughout its campus

Such daring sleep habits are not for everybody. "Going ultrashort is like running a marathon or climbing Mount Everest," writes Dr. Mednick in her book, *Take a Nap! Change Your Life*. "You need careful training and a generous period of recovery." However, the simple "productivity nap" does hold an undeniable appeal for time-crunched workers. Most sleep experts welcome the consequent uptick in nap-friendliness at work, though some are leery of its unintended consequences. "It can get out of hand: If you start encouraging the workforce to sleep in the afternoon, you're encouraging them to have late nights," says Horne. "Our society is getting more used to napping in the workplace, but it is still seen as something that could get you fired." **B**

Do's and Don'ts of Dozing

Napping at work has become acceptable at some companies. Yet pulling off a "productivity nap" at the office isn't easy. Here are suggestions from sleep scientist Dr. Sara Mednick, author of *Take a Nap! Change Your Life*.

1. Make time and space



Twenty to 30 minutes is all you need to reap the rewards of midday slumber. The best time is the early afternoon when your body is tired—so consider reserving the second half of your lunch break for shut-eye. If your employer doesn't have a nap room, a yoga mat beats a bathroom stall, though the most comfortable option may be a parked car.

2. Set the proper conditions



In the dark our brains produce more of the sleep-inducing hormone melatonin, so close the blinds, turn off the lights, and consider using a sleeping mask. Keep the temperature on the warmer side. If you must nap sitting up, use a travel pillow to avoid the dreaded "nap nod." And don't forget to turn off your cell phone.

3. Careful with the chemicals



Avoid caffeine for a few hours before a nap. The same goes for nicotine, diet pills, and antidepressants. Although alcohol makes it easier to nod off during the day, it interferes with sleep and should also be avoided. Refined sugars and carbs may keep you up, but meat, dairy, and some nuts have tryptophan, which our bodies break down into melatonin.

ILLUSTRATIONS BY QUICKHONEY

Etc. Wealth

Invest in



Pockets of Profit in Health-Care Stocks

Kris Jenner of the T. Rowe Price Health Sciences Fund on where to find lucrative product pipelines

Health care has historically been a defensive sector of the stock market. It continues to underperform in an environment in which many would have predicted it would do better. This is because there's a lack of leadership in the household names: Merck, Pfizer, Johnson & Johnson, Medtronic. In the next 6 to 12 months, none of these companies will be in the early phases of–or about to engage in–important new product cycles.

Also, many of these companies have European exposure, and health-care budgets around the world are growing at an unsustainable pace. In Europe, austerity measures were implemented and companies absorbed overnight price cuts. The market worries that could happen in the U.S. down the road.

Yet the perception of risk is greater than the reality. The sector's returns will improve with time. For the last decade we've been overweight in biotech, and that continues. Large-cap stocks Amgen, Celgene, Gilead Sciences, and Biogen look as attractively valued as they've been since I began covering them in 1997. The general view is that growth coming from these companies will likely be modest, but the market is overly discounting their growth prospects.

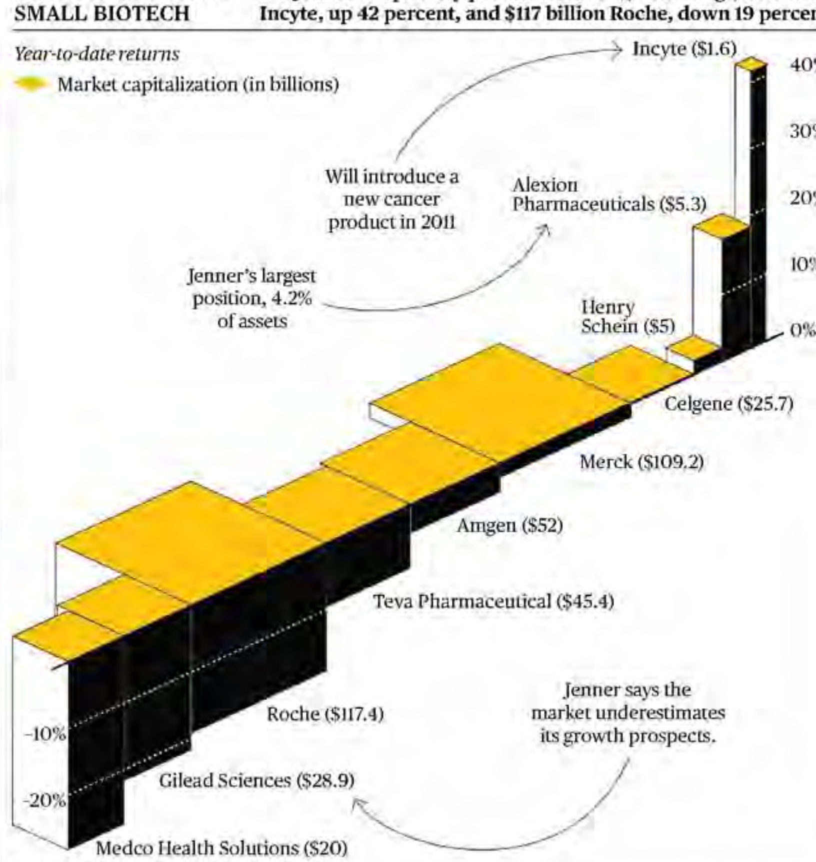
That said, my strategy for some time has been to invest in small and midsize companies. We have a reasonable sampling of larger companies, including Pfizer and Amgen, but the medium market cap of [stocks in] our fund is significantly smaller than the average health-care fund. We're looking to invest in innovation and important new medical products.

One good example is Human Genome Sciences. I think they are on the verge of introducing an important new medicine for treatment of lupus. The company has been in existence for some 15 years and it's never made money. With the introduction of this product, it's on the verge of becoming profitable.

Another smaller company is Incyte, which is bringing an important cancer product to the market in 2011. Incyte has been in existence as long as Human Genome Sciences and has never been profitable. I think that's about to change. Alexion Pharmaceuticals is increasingly profitable and has an innovative new product for people who suffer from rare genetic diseases. It is the fund's largest holding.

BIG RETURNS FROM SMALL BIOTECH

Jenner's top 10 (by percent of assets), including $1.6 billion Incyte, up 42 percent, and $117 billion Roche, down 19 percent



DATA: BLOOMBERG, MORNINGSTAR

The perception of risk is greater than the reality. The sector's returns will improve with time.

There are two medical-device companies we're excited about. One, Edwards Lifesciences, will soon reveal late-stage clinical trials for a new heart valve technology. For people who have a diseased aortic valve, this technology wouldn't require open heart surgery. The second, HeartWare International, has the best technology for what's called a ventricular assist device and is basically a heart pump. In a world where a substantial number of people have heart failure–and there aren't enough heart transplants to go around–there's going to be a big market for this over the next five to seven years. While the device isn't available in the U.S. yet, its technology looks best in class. *—As told to Lewis Braham*

The Stats: Jenner, who has an M.D., has managed the T. Rowe Price Health Sciences Fund since 2000. The $2.2 billion fund has one of the best records in its category: a 5 percent total annualized return, versus the average health-care fund's 3.6 percent, over the past decade.

SIMONE BRANDT/ALAMY

Etc. Next Life

A Calculated Sense of Style

Former banker Kyle Wilkinson's private fashion retail website, Urbanbloke, currently has more than 10,000 members



As the financial markets collapsed, Kyle Wilkinson doubled down on the fashion industry

Kyle Wilkinson's mother was a fashionable eccentric. A model for Geoffrey Beene during the designer's 1960s heyday, "She ran around Greenwich Village and practiced séances," says Wilkinson. The only thing her bohemian worldview had no tolerance for were bankers. When Wilkinson entered Chase Bank's training program out of college, in 1985, he and his mother "didn't talk for months. What I was doing was anathema to everything she stood for."

Wall Street wasn't everything Wilkinson stood for, either. Over 20 years, he left to work on startups twice, only to return. By 2008, "I could see the whirlwind around me," he says. "I was the oldest guy on our desk, and I was very tired."

When he left banking for good, the fashion world was in a tailspin. According to consulting firm Bain & Co., nearly half of all luxury goods went unsold in the fourth quarter of 2008. Wilkinson saw an opportunity: "I remembered the theory of comparative advantage. This is one of those situations–designers can sell excess goods or last season's fashion, and consumers pay far less than in stores." He decided to start a flash sale website offering men's goods at discounts to a private online community. The model had already proven viable; online retailer Gilt Groupe claimed $170 million in revenue for 2009.

That year Wilkinson founded Urbanbloke with a "low- to mid-six-figure" investment. About half came from him, half from friends and family. His first vendor, Alara dress shirts, "liked that we were a startup and was willing to take a chance." Finding a warehouse that took vendor shipments, made quality-control checks, matched items with orders, and shipped them was an "early feather in the cap," he says. As of June, the site had 10,400 members and partnerships with 100-plus companies. Top sellers include Tom Ford sunglasses and Bed|Stü accessories.

Urbanbloke hired a buyer in February, but Wilkinson's wife still helps select clothing while his son interns and models between semesters at Wesleyan. Although now a "garmento," Wilkinson says his facility with numbers is what will steer Urbanbloke into the black. "Math is creative," he says. "My vision of the world is not my mother's." Ⓑ —*Ryan Bradley*

Alife high-top sneakers ($59 on the site; retail price is $115) are a top seller



THE INVESTOR'S NEW CLOTHES

1,000 Approximate number of total transactions on the site as of mid-August	**$20-$375** Price range for items (from Original Penguin hats to Joseph Abboud suits) on the site
$10,000 Low end of the minimum monthly amount it takes to run Urbanbloke.com	**150** Responses to craigslist ad to take over the intern job Wilkinson's son held

DATA: URBANBLOKE

TOP: PHOTOGRAPH BY MARTHA CAMARILLO FOR BLOOMBERG BUSINESSWEEK

Venice Biennale

An insider's guide to Venetian distractions during the city's big show. *By Ondine Cohane*

The appeal of the Venice Biennale is now so powerful that the event has officially outgrown its name. The exhibition, which drew more than 100,000 visitors last year, is so popular that organizers have made it an annual event. A contemporary art show is still staged in odd-numbered years, and the Venice Biennale of Architecture, which begins this week, now takes place in even ones.

Many of this season's exhibitions and pavilions will focus on sustainable building, including an off-site symposium on rethinking energy sources. The built environment is an appropriate theme for Venice, since the city is undergoing a resurgence as new hotels, museums, and stores emerge in deftly retrofitted historic buildings. In preparation for the festival, which runs through Nov. 21, here's what to see, where to go, and who to talk about. Ⓑ

Best View



According to architect Rem Koolhaas, the terrace of **il Fondaco dei Tedeschi** (Piazza San Marco 5554) "offers views of the Grand Canal and Rialto and serves as a rare vantage point for Venice's dense roofscape."

In-Demand Dining



A reservation at the 15-table **Osteria Alle Testiere** (Sestiere Castello 5801) is one of the toughest in town. Many curators book weeks in advance.

Sweet Tooth Fix



On Sunday mornings, locals cram into **Pasticceria Tonolo** (Sestiere Dorsoduro 3764), a veritable museum of pastry open since 1953. Art savants know this is the place to go for cream-filled donuts, or *krafen*.

Must-See New Museum



Venice's former Customs House, **Punta della Dogana** (Dorsoduro 2), has been transformed by architect Tadao Ando into a museum for the vast art collection of luxury-goods mogul François Pinault. The museum will stay open after hours from Sept. 2-6.

Living La Dolce Vita

Luca Molinari, the curator for the Italian pavilion is a fan of the late Venetian design impresario Carlo Scarpa and his influence. See Scarpa's modern touch in the garden at **Fondazione Querini Stampalia** (Campo Santa Maria Formosa Castello 5252) as well as fragments of his pavilion in the Biennale's Giardini. After hours, Molinari joins Biennale insiders at **Osteria ai Quattro Ferri** (Campo San Barnaba 2754/b) in the arty Dorsoduro neighborhood.



Urban art project "Chance Encounter on the Tiber"

Insider's Take



San Zaccaria Church

This year's Biennale directer, Pritzker Prize winner Kazuyo Sejima of Japan, cites 9th century **San Zaccaria Church** (Castello, Campo San Zaccaria)—and its Bellini *Madonna and Child*—as one her favorite spots. "When I am working," she says, "I have lunch or dinner at **Corte Sconta** (Calle del Pestrin 3886), with its inside-outside space, mix of locals and attendees, and excellent food."

KRAFEN: FOOD COLLECTION RF/GETTY IMAGES; SAN ZACCARIA: ROBERTO ESPOSTI/ALAMY; PUNTA DELLA DOGANA: DANIELE VENTURELLI/WIREIMAGE; RIALTO BRIDGE: CORBIS; "CHANCE ENCOUNTER ON THE TIBER": MARCO MARTINELLI; PASTA: DAVID BISHOP INC./GETTY IMAGES; TRAGHETTO: EYE UBIQUITOUS/ALAMY; EURO: PANDO HALL/GETTY IMAGES; AUDI AWARD: STANDARDARCHITECTURE, AUDI AG; VASE: DEA PICTURE LIBRARY/AGEFOTO STOCK; ESPRESSO: IMAGE SOURCE/GETTY IMAGES; LIBESKIND: SEAN GALLUP/GETTY IMAGES; HADID: DAVE M. BENETT/GETTY IMAGES

Take a traghetto *and travel like the Venetians*



Sight of Urban Renewal

The Audi Urban Future Award honors young designers for their bold takes on creating a sustainable future (below, "The Travel Belt Bubbles" by Beijing-based Standardarchitecture). The location where it's awarded is a must-see. The 14th century **Scuola Grande della Misericordia** (Cannaregio 3599/a) exemplifies Venice's urban reinvention.



Commuters of the urban future, circa 2030

Local Ride



Leave the overpriced gondolas to camera-toting tourists. Instead, catch a *traghetto,* the gondola ferries that cross the Grand Canal for as little as a euro.

Party Crashers



Rwanda and Iran are among six new participants this year. (There are 43 in all.) Don't expect controversial subject matter, though. Sophisticated jewelry designs are the focus of Atelier Rwanda, while Iran's pavilion (above) is devoted to the Persian garden and its paradisiac metaphor.

Travel Tip

A "Venice Connected" card (about $75 at veniceconnected.com) gives you unlimited public transportation on boats as well as discounts at key museums like the **Murano Glass Museum**.



Biennale Break

The best place to rest one's feet during a day of browsing is at the psychedelic 2009 Tobias Rehberger-designed bar inside Giardini's **Palazzo delle Esposizioni**.



Starchitects on Parade



Daniel Libeskind

Zaha Hadid

The Danish pavilion is chockablock with models from master designers—including Foster + Partners, Zaha Hadid, Rem Koolhaas, Daniel Libeskind, and Jean Nouvel—in an exhibit that looks to Copenhagen as a model for sustainable urban development.

Best New Hotel



The new **Palazzina Grassi** (San Marco 3247), with 26 rooms, set between two palazzi from the 15th and 16th centuries, is designer Phillipe Starck's first foray into Italy. The hotel is tucked behind the Grassi museum not far from San Marco. It's the perfect jumping-off point for sightseeing.

Botox sales topped $1 billion at the end of 2009



The Old and the Beautiful

How the boomers' fear of mortality became an $88 billion annual industry. *By Bess Levin*

Has the image of Suzanne Somers having sex at age 94 ever crossed your mind? While it's unusual for people just shy of triple digits to wake up every morning thinking about how healthy and strong their bodies feel, and proceed to engage in "wonderful sex with [their] 105 year-old husband[s]," that's what Somers, now 63, sees in her future.

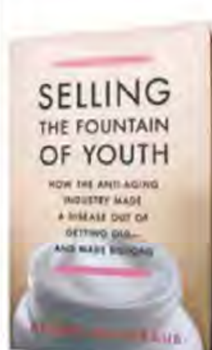
Could that be your future, too? Of course! All you have to do is suspend any disbelief that the actress and former Thighmaster shill isn't an expert on the inner workings of the body. Then banish all doubt about the soundness of the medical advice she's repeating, and put yourself on a daily hormone regimen of over 60 supplements, creams, and injections. If that's a lot to process, don't worry: It's all laid out in Somers' manifesto, *Breakthrough*, which spent nearly four months on the *New York Times* advice books best-seller list. The tome doesn't put much stock in the fact that, according to some doctors, such a regimen may make your hair fall out, require an organ to be removed (admit it: that gallbladder was just taking up space), or leave you susceptible to depression and even cancer. But why should it? We're talking about an opportunity to get carded at a bar seven decades past your 21st birthday.

If you're looking for a more reliable guide to the anti-aging revolution, consider Arlene Weintraub's *Selling the Fountain of Youth: How the Anti-Aging Industry Made a Disease Out of Getting Old–And Made Billions*. The book, which is based on a cover story Weintraub wrote for this magazine in 2006, traces the anti-aging industry from its salad days in the early '90s to its $88 billion-a-year present. Weintraub chronicles pharmacists mixing up their own concoctions in back rooms, battles between drug companies and large corporations, and the reincarnation of Somers as a poster girl for endless youth. Along the way, she shows how one absurd promise–the ability to stave off the aging process–became a multibillion-dollar marketing ploy that, according to most business measurements, worked like a charm.

The anti-aging phenomenon started off with understandable intentions. Baby boomers were getting older and didn't like what they saw or how

Selling the Fountain of Youth: How the Anti-Aging Industry Made a Disease Out of Getting Old–And Made Billions

By Arlene Weintraub
BASIC BOOKS,
$25.95, 256 pp.



TOP: LAUREN GREENFIELD/INSTITUTE

they felt. So when a study was printed in the *New England Journal of Medicine* in 1990 positing that human growth hormone (HGH), previously used to treat growth disorders in children, could be used on healthy adults to "reverse aging," people took note—and many latched on like junkies.

In 1993 a number of doctors, notably osteopaths Ronald Klatz and Robert Goldman, began injecting themselves (forget mice) with HGH. After they observed, among other outcomes, decreases in body fat and increases in energy, the cat was out of the bag. Paying no attention to a medical Establishment that saw HGH as exceedingly dangerous and unresearched, they and countless imitators opened clinics around the country where patients could pay thousands of dollars to learn how to inject themselves with HGH. If hormones were bad for you or caused cancer, the duo argued, all teenagers would be dead—twisting logic in such a way it's unclear whether they were intellectually dishonest, stupid, or thought their clients just didn't care. Regardless, many didn't.

Klatz and Goldman launched a "medical society" called the American Academy of Anti-Aging Medicine (A4M), whose mission it became to promote HGH and certify doctors in this exciting and lucrative new field. Soon after, they were holding annual conferences in Vegas, charging $4,000 for procedures mainstream science deemed faulty and recommending diets of hormones to replace those gone "missing" during the aging process.

While it may not have been good science, it was good business. A4M was hardly the first association to market the fountain of youth, but by making the unattainable seem accessible, it paved the way for successive companies—and entire industries—to offer their own dose of the same promise. Supermarket aisles now teem with bottles adorned with the words "anti-aging;" second-tier produce like pomegranate and acai have become "superfruits" and the foundation of their own billion-dollar businesses. For men fearing the onset of "male menopause," anti-aging hormones and over-the-counter antidotes like Viagra and Cialis have helped assuage millions of midlife crises. Even botox (one of the movement's own creations) descended the age curve from being a subplot on *Sex & The City* to one on *The Hills*. And this is to say nothing of the spate of advice books.

The anti-agers have all the answers for their critics. The pharmaceutical companies that fought to shut them down? They'd be doing the same thing if they could get the patents! Scientists cautioning against the serious dangers of this "medical specialty"? They're being paid off by Big Pharma! When a patient of T.S. Wiley, Suzanne Somers' favorite doctor, complained of extreme bleeding, hair loss, and insomnia as a result of following the doctor's orders, she was told she was "being ungrateful." When local pharmacists latched on, having realized the business could free them from the shackles of dealing with insurance companies and line their pockets big-time, they shot back that those questioning their lack of oversight wanted to take away the consumers' right to choose. No one was too small to be threatened with a slander suit, including Weintraub. (A4M eventually dropped the threat.)

Ponce de Leons Of the 21st Century

The anti-aging business has grown into an $88 billion annual industry with a multitude of beneficiaries.

BodyLogicMD:
The network for "bioidentical hormone replacement doctors" was founded in 2003 by twins Paul and Patrick Savage after Paul lost nearly 90 pounds via hormone injections. It now oversees more than 40 practices.

Resveratrol:
Hollywood (Fla.)-based FWM Laboratories began offering free trials of the drug but insidiously signed people up to receive automatic shipments for around $80 a month and made it virtually impossible to cancel.

Suzanne Somers:
The former sitcom actress and home fitness guru capitalized on the anti-aging revolution with her books *The Sexy Years*, *Ageless: The Naked Truth About Bioidentical Hormones*, and *Breakthrough*.

MonaVie:
Founded in 2005, the company sells a dark purple drink made with the acai berry for more than $40 that, it says, promotes overall health and longevity. In 2009 founder Dallin Larsen claimed $1 billion in sales.



Botox has descended the age curve from being a subplot on *Sex & The City* to one on *The Hills*

On the other hand, maybe Wall Street and Detroit have something to learn. Botox sales topped $1 billion by the end of last year, and anti-aging "institutes" like Cenegenics and BodyLogicMD continue to expand their client bases by offering what BodyLogicMD's president, Patrick Savage, calls "the perfect example of a service you're not going to give up in a bad economy." With the unemployment rate hovering at nearly 10 percent in the U.S., it would be tremendous consolation if older Americans could reenter the workforce looking younger than ever. The laws of nature, however, still haven't been repealed. ■

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Lauren Zalaznick

"I raised my hand to say I wanted to take on iVillage. ... There was a huge debate: Could a cable lady take on this digital thing?"

The president of NBC Universal Women & Lifestyle Entertainment Networks on shaking up Bravo and creating her own empire



In November 2007, NBC Universal acquired the Oxygen Network. I had been running NBCU's Bravo unit for three years, and the onus was now on me to create a new pop culture channel in the same house as the one where I'd just had a long birthing process.

I decided to break up my championship team at Bravo. We had to rebrand Oxygen within months–there were aggressive numbers to hit. The toughest decision was where to get the people. I felt I had to upset a very stable apple cart. I plucked the absolute force behind marketing and digital and moved him to the new network. We moved our creative person and our head of development. The risk was that, if we changed something at Bravo, it might be a house of cards. But I felt that going into the marketplace to hire would have been a bigger risk. Meanwhile, I was managing up to my bosses, saying it's all going great. My pitch was that these moves had nothing to do with Bravo. Oxygen needed these people.

As all that was happening, the leader of [female-oriented website] iVillage left that role. I raised my hand to say I wanted to take on iVillage and make it a stellar asset. [NBCU CEO] Jeff Zucker's answer was, "No, you've got enough on your plate. Relax, lady." There was a huge debate: Could a cable lady take on this digital thing? But I had a vision for it. I thought iVillage was suffering in digital quarantine. It was not a social network; it was a high-quality content play.

The "no" period was a couple of months. The trigger for "yes" was me coming back and saying, "What I really want to do is a sales and marketing initiative that rolls up female-centric audiences across the entire NBCU portfolio. I want iVillage to be the digital anchor." I promised I'd restore and surpass the asset value in a couple years.

They said yes, but there was no tolerance for investment. We had to dismantle iVillage and rebuild. Now, this is a business that has made its numbers for the first time and is profitable. Every day is a thousand decisions, and you've got to own each one. That's what makes you an operator instead of a consultant. B

—As told to Diane Brady

PHOTOGRAPH BY MIKE MCGREGOR FOR BLOOMBERG BUSINESSWEEK

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*Source: World Energy Outlook 2009, IEA/OECD